IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
Lucky Brand Dungarees, LLC, *et al.*,[1]	:	Case No. 20-11768 (__)
Debtors.	:	(Joint Administration Requested)

DECLARATION OF MARK A. RENZI, CHIEF RESTRUCTURING OFFICER OF THE DEBTORS, IN SUPPORT OF THE CHAPTER 11 PETITIONS AND FIRST DAY RELIEF

I, Mark A. Renzi, pursuant to Section 1746 of title 28 of the United States Code, hereby declare that the following is true to the best of my knowledge, information, and belief:

1. I am the Chief Restructuring Officer of Lucky Brand Dungarees, LLC, LBD Parent Holdings, LLC, Lucky Brand Dungarees Stores, LLC, Lucky PR, LLC, and LBD Intermediate Holdings, LLC (collectively, the "**Debtors**," the "**Company**," or "**Lucky Brand**"). I have served as Chief Restructuring Officer since June 1, 2020. Prior to becoming Chief Restructuring Officer, I advised the Debtors in my capacity as a Managing Director of Berkeley Research Group, LLC ("**BRG**") beginning in April 2020.

2. On July 3, 2020 (the "**Petition Date**"), the Debtors commenced in this Court voluntary cases under chapter 11 of title 11 of the United States Code (the "**Bankruptcy Code**"). I submit this declaration (the "**First Day Declaration**") in support of the Debtors' voluntary

[1] The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: Lucky Brand Dungarees, LLC (3823), LBD Parent Holdings, LLC (4563), Lucky Brand Dungarees Stores, LLC (7295), Lucky PR, LLC (9578), and LBD Intermediate Holdings, LLC (7702). The Debtors' address is 540 S Santa Fe Avenue, Los Angeles, California 90013.

petitions for relief and motions filed concurrently herewith (the "**First Day Motions**"). I am authorized to submit this First Day Declaration on behalf of the Debtors.

3. In my capacity as Chief Restructuring Officer, I am generally familiar with the Debtors' day-to-day operations, business and financial affairs, and books and records. Except as otherwise indicated, the facts set forth in this First Day Declaration are based upon my personal knowledge, my review of relevant documents and information, my discussions with the Debtors' management and employees, my insights and opinions based upon experience, knowledge, and information concerning the Debtors' operations and financial condition, and/or my discussions with the Debtors' advisors, including Latham & Watkins LLP ("**L&W**"), Young Conaway Stargatt & Taylor, LLP ("**YCST**"), Houlihan Lokey Capital, Inc. ("**Houlihan**"), and BRG. References to the Bankruptcy Code, the chapter 11 process, and related legal matters are based on my understanding of such matters in reliance on the explanation provided by counsel. If called upon to testify, I would testify competently to the facts set forth in this First Day Declaration.

4. This First Day Declaration has been organized into five sections. The first provides an overview of the Debtors and their chapter 11 cases (the "**Chapter 11 Cases**"). The second provides background information on the Debtors' business. The third describes the Debtors' corporate and capital structure. The fourth describes the key events leading to the filing of the Chapter 11 Cases and the Debtors' prepetition restructuring efforts. The fifth summarizes the relief requested in, and the legal and factual bases supporting, the First Day Motions.

I. Overview

5. Founded in Los Angeles, California in 1990, Lucky Brand is an apparel lifestyle brand that designs, markets, sells, distributes, and licenses a collection of contemporary premium fashion apparel under the "Lucky Brand" name. The Company's products, designed for women, men, and children, include denim jeans, pants, woven and knit tops, outerwear, and accessories.

6. Lucky Brand is globally recognized for innovative, trendsetting denim jeans and apparel. Lucky Brand sells directly to consumers in the United States in Company-owned Lucky Brand stores, to a network of wholesale accounts that include department stores, selected specialty retailers and boutiques, and through the Company's e-commerce site, www.luckybrand.com. As of May 2020, the Company operated 112 specialty retail stores and 98 outlet stores in North America. In addition, Lucky Brand selectively provides licenses to third parties to use the Company's various trademarks in connection with the manufacture and sale of designated products in specified geographical areas for specified periods.

7. Notwithstanding its core operating strengths, the Company has been burdened by its substantial debt load and has faced many of the same pressures affecting U.S. retailers more generally, especially in light of the COVID-19 pandemic. As of the Petition Date, the Debtors' capital structure includes approximately $181.97 million in funded debt. Prior to the COVID-19 pandemic, the Company had been focused on operational and strategic alternatives aimed at restructuring its retail operations and store profile and extending the Company's maturity runway while allowing it to service interest payments on its funded debt.

8. Despite the Company's best efforts and support of its economic stakeholders, the Company's restructuring efforts were derailed by a combination of the economic impact of the global COVID-19 pandemic, which resulted in extended closures of its retail stores, and limited liquidity, which diminished access to new inventory from its vendors. Like thousands of businesses across the world, the Debtors have been operating under the considerable financial strain caused by the pandemic while trying to preserve the health and safety of over 2,800 employees. The temporary closure of all of the Company's retail stores in the months of March, April, and May, and the disruption to the Debtors' customer base and supply chain have only

exacerbated the Company's issues related to its substantial funded debt obligations, significant lease obligations, and trade indebtedness. As a result, the Company was forced to explore restructuring alternatives to maximize the value of its business and restructure its debt.

9. Against this backdrop, the Company and its advisors worked tirelessly to solicit and develop various strategic alternatives throughout the first half of 2020 to maximize stakeholder value. These efforts include retaining BRG and Houlihan, commencing a sale-marketing process involving more than six dozen strategic and financial investors, and running a concurrent financing process. While several parties expressed interest in acquiring the Company as a going concern, the aforementioned difficulties have compounded the Company's limited liquidity and substantial lease and trade related obligations, and have negatively impacted the Company's ability to effectuate an out-of-court transaction that would address its liquidity challenges and position the Company for long-term success. Many of these parties nonetheless remain interested in Lucky Brand, and the Debtors intend to continue exploring potential transactions with such parties on a postpetition basis to maximize value for the benefit of all stakeholders.

10. As more fully described below in Section IV, after launching an initial targeted prepetition marketing process, on July 3, 2020, the Debtors entered into a stalking horse asset purchase agreement (the "**All Assets Purchase Agreement**") with SPARC Group LLC ("**SPARC**") for the sale of substantially all of the Company's assets (the "**All Assets Bid**"), and pursuant to the All Assets Purchase Agreement, SPARC has agreed to designate certain assets to the following parties (or their respective designees), in exchange for payment of a portion of the purchase price thereunder: (i) Authentic Brands Group, LLC ("**ABG**"), (ii) each of the DIP Lenders (as defined below) and (iii) each of the Second Lien Lenders (as defined below).

11. As part of their stalking horse proposal, the Second Lien Lenders proposed, as an integrated package deal with the All Assets Purchase Agreement, a term sheet for debtor-in-possession financing (the "**DIP Financing**"). The term sheet provided for a $15.6 million super-priority junior secured debtor-in-possession term loan facility, which allows for the use of cash collateral pursuant to an approved budget, established certain fees and expenses, and set the interest rate equivalent to that of the Second Lien Credit Agreements (as defined below). The DIP Financing is conditioned on the use of the First Lien Lenders' (as defined below) cash collateral. While the Company's lenders have agreed to support the Company during this challenging time, such support is conditioned on an accelerated sale process to minimize the administrative expense of the Chapter 11 Cases and to ensure the transition of the business to SPARC which will be recapitalized and enable the Company's business to continue as a going concern for the benefit of all stakeholders.

12. Concurrently with the execution of the All Assets Purchase Agreement, the Debtors entered into an additional asset purchase agreement (the "**IP Purchase Agreement**" and together with the All Assets Purchase Agreement, collectively, the "**Stalking Horse Purchase Agreements**" and each a "**Stalking Horse Purchase Agreement**") with ABG-Lucky, LLC (the "**IP Buyer**") for the sale of the Debtors' intellectual property and certain other assets in the event that the Toggle (as defined below) occurs and the All Assets Purchase Agreement is terminated.

13. The DIP Financing provides for the following key milestones:[2]

Timeline	Event
No later than 2 calendar days after the Petition Date	Debtors shall file a motion to approve the Bidding Procedures
No later than 2 calendar days after the Petition Date	Debtors shall file a motion to assume the Consulting Agreement

[2] Capitalized terms used in the summary table and not otherwise defined herein shall have the meanings ascribed to them in the DIP Motion, the DIP Interim Order (both as defined below), or the Sale Motion.

Timeline	Event
No later than 5 calendar days after the Petition Date	The Bankruptcy Court shall have entered the Interim Order
On or before July 31, 2020	The Bankruptcy Court shall have entered an order (the "**Bidding Procedures Order**") approving the Bidding Procedures in a form and substance satisfactory to the Stalking Horse Bidder and Prepetition Secured Parties
No later than July 31, 2020	The Bankruptcy Court shall have entered an order approving the assumption of the Consulting Agreement in a form and substance satisfactory to the DIP Lender Representative and First Lien Agent.
No later than July 31, 2020	The Bankruptcy Court shall have entered the Final Order in a form and substance satisfactory to the DIP Lender Representative and First Lien Agent.
No later than August 10, 2020	The Debtors shall have held an auction (if necessary) pursuant to the Bidding Procedures Order
No later than August 12, 2020	The Court shall have held the hearing (the "**Sale Hearing**") to consider entry of the order in a form and substance satisfactory to the DIP Agent and First Lien Agent (the "**Sale Order**") approving the sale of substantially all of the Debtors' assets.
No later than August 13, 2020	The Bankruptcy Court shall have entered the Sale Order and such order shall be in full force and effect and not reversed, modified or stayed.
No later than August 14, 2020	Closing of the sale approved by the Sale Order
No later than 45 calendar days after the Petition Date	The Debtors shall file the Plan (as defined below) and the disclosure statement for the Plan (the "**Disclosure Statement**")
No later than 75 calendar days after the Petition Date	The Court shall have entered an order approving the Disclosure Statement
No later than 120 calendar days after the Petition Date	The Court shall have entered an order confirming the Plan
No later than 135 calendar days after the Petition Date	Effective Date of the Plan

14. The Company commenced these Chapter 11 Cases to conduct an operational rightsizing, including an evaluation and adjustment of its lease portfolio, obtain postpetition

financing necessary to fund these Chapter 11 Cases, and consummate a going-concern sale and orderly liquidation pursuant to a plan (the "**Plan**"). Speed is critical to maximizing the value of the Debtors' estates. An expeditious sale process is imperative to the Debtors' ability to continue operating as a going concern, especially in light of the challenges created by the shutdown of the Company's stores during the pandemic. Accordingly, the Debtors intend to proceed towards the consummation of the sale transaction and confirmation of a plan on the foregoing aggressive, but realistic, timeframe.

II. The Debtors' Business

A. History and Formation

15. Lucky Brand was formed in 1990 in Los Angeles, California by Gene Montesano and Barry Perlman as an apparel lifestyle brand. In 1999, Lucky Brand was acquired by Liz Claiborne and Lucky Brand products were sold through twelve Company-owned stores and select specialty retailers. Over the next two decades, Lucky Brand expanded to over 220 Company-owned stores in the United States, Canada, and Puerto Rico, and developed a global e-commerce footprint. As discussed in greater detail below, in 2015, Lucky Brand was purchased by Clover Holdings II, LLC ("**Clover Holdings**").[3] The equity interests of Debtor LBD Parent Holdings, LLC ("**Lucky Parent**") are currently primarily owned by Clover Holdings and Carlos Alberini, the former chief executive officer of the Debtors. Additionally, the Second Lien Lenders, including Clover Holdings, hold warrants in Lucky Parent.

B. The Debtors' Business Operations

16. Lucky Brand is an apparel brand with a deep heritage in California, music, moto, and Americana. The Company provides a diversified and balanced assortment of products across

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[3] Clover Holdings is an affiliate of funds managed by Leonard Green & Partners, L.P. (together with its affiliates, "**LGP**").

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genders and age groups with 47% of sales in apparel, 40% in denim, and 13% in accessories and other products.

17. Lucky Brand maintains a diversified geographic footprint, with an established retail presence across the United States. As of the Petition Date, the Debtors operate over 200 store locations in the United States and Puerto Rico and Lucky Brand products are sold in the Company's wholesale retail partners' stores. The Debtors' store locations are all leased and are typically located in traditional shopping malls. The Debtors' store locations average 2,900 square feet in size. Some of the Debtors' store leases include both a fixed rental payment due in advance and an additional rental payment if the Debtors achieve specified annual sales thresholds, calculated as a set percentage of sales. For certain of the Debtors' other store leases there is no fixed rental payment but instead rent is calculated based upon a percentage of sale thresholds, as agreed to by the Debtors and the applicable landlord. Rent is generally due on the first day of each month. The annual cost of the leases (rent and occupancy costs) for the Debtors' stores was approximately $66 million in fiscal year 2019. The Debtors also lease the office space for their corporate headquarters in Los Angeles, California and for an office in New York, New York. The Debtors lease one showroom in Los Angeles and a second in New York to display their apparel to buyers.

18. The Debtors maintain one distribution facility in California and another one in Kentucky which are both in operation as of the Petition Date. The distribution facilities house the Debtors' distribution operations for their stores and wholesale business. The Debtors' distribution facilities are maintained by third-party logistics providers who arrange for staffing for the distribution facilities.

(a) *Direct to Consumer Business*

19. The Company sells its products directly to consumers through its Company-owned retail stores and e-commerce website, www.luckybrand.com. The Company has both full-price retail stores and Lucky Brand outlet stores. The Company-owned stores are located in 43 states across the United States. The Company's e-commerce platform accounts for approximately 12% of all sales for the fiscal year ended December 31, 2019.

(b) *Wholesale Business*

20. The Company's wholesale business includes sales to specialty stores, outlet stores, and larger retailers, including department stores. The Company has numerous valuable relationships with leading nationwide premium department stores, specialty retailers and

boutiques, and off-price retailers through which its products are sold, including Macy's, Dillard's, Bloomingdale's, Costco Wholesale, Nordstrom, TJ Maxx, and e-commerce retailers such as Zappos.com, Amazon.com, and others. The Company's wholesale business makes up approximately 46% of its annual net sales.

(c) *Licensing Business*

21. The Debtors also have a licensing business whereby the Company licenses the right to use its various trademarks in connection with the manufacture and sale of designated products to unaffiliated third parties. These agreements are generally structured with a guaranteed minimum payment that the licensee pays to the Debtors, royalty income paid as a percentage of inventory purchases or sales above agreed upon thresholds, and a fee based on percentage of sales to compensate the Debtors for their advertising costs. For the fiscal year ended December 31, 2019, the Company recognized approximately $14 million in licensing royalty revenue.

C. The Debtors' Vendors and Suppliers

22. Nearly all of the Debtors' merchandise is sourced either (a) by purchasing directly from manufacturing vendors or (b) through the use of vendor service providers. Like many retailers, the substantial majority of the vendors and service providers utilized by the Debtors are based outside of the United States. Indeed, in fiscal year 2019, the Debtors purchased nearly all of their inventory from suppliers located outside of the United States. The Debtors have historically done business with over 75 vendors that operate hundreds of factories, with the top 10 vendors supplying 65% of the Debtors' merchandise. The Debtors have strong relationships with their vendors, some of which rely upon the Debtors for a significant portion of their business and others who advance costs for the Debtors in connection with producing the Debtors' merchandise.

23. The Debtors source the balance of their merchandise through their vendor service providers, Li & Fung (Trading) Limited ("**Li & Fung**") and Newtimes Overseas Limited

("**Newtimes**" and together with Li & Fung, the "**Vendor Service Providers**"), which assist the Debtors in identifying suitable vendors, placing orders with those vendors for merchandise on the Debtors' behalf, managing timely delivery of goods to the Debtors, inspecting the finished merchandise, and handling vendor communications on the Debtors' behalf. In cases where the Debtors initiate contact with the manufacturer, the Vendor Service Providers may also provide quality control services. The Debtors are party to a buying agency agreement and a services agreement with Li & Fung, in each case dated as of January 10, 2020 and effective as of July 1, 2018 (the "**Li & Fung Buying Agency Agreement**" and the "**Li & Fung Services Agreement**," respectively). The Debtors are also party to a purchasing agency agreement, dated as of May 29, 2015 and as amended as of November 3, 2017 (the "**Newtimes Buying Agency Agreement**" and together with the Li & Fung Buying Agency Agreement, and the Li & Fung Services Agreement, the "**Vendor Service Provider Agreements**").

24. Pursuant to the Vendor Service Provider Agreements, the Vendor Service Providers act as limited agents for the Debtors to cultivate relationships with and purchase products from manufacturers in certain foreign jurisdictions on the Debtors' behalf (the "**Agency Services**"). The Vendor Services Providers also act to provide quality control and vendor compliance services in respect of certain specific products (the "**QC Services**" together with the Agency Services, the "**Vendor Services**"). The Debtors pay Li & Fung a progressive commission based on the amount the Debtors pay to the relevant vendors for Agency Services and a commission based on payments for products for which Li & Fung provided the QC Services for the QC Services. The Debtors are required to pay a minimum commission as calculated at the end of each calendar year. The Debtors pay Newtimes a commission based on the value of products purchased by the Debtors for which Newtimes provided Vendor Services.

D. The Debtors' Employees

25. Before implementing a furlough program that began on March 29, 2020 as a result of the COVID-19 pandemic, the Debtors employed approximately 3,029 individuals in the United States and Canada, approximately 696 of whom were employed on a full-time basis, and approximately 2,333 of whom were employed on a part-time basis (collectively, the "**Employees**"). Due to store closures in response to the COVID-19 pandemic, the Debtors made the decision to furlough approximately 2,678 Employees on an as-needed basis. As of the Petition Date, the Debtors have been able to return approximately 905 Employees.

E. The Canadian Operations

26. In 2019, the Debtors operated nine stores in Canada through Lucky Brand Dungarees Canada, Inc. ("**Lucky Canada**"). In the spring of 2020, the Company made the decision to halt operations in Canada and permanently close all of its Canadian stores. Substantially contemporaneously herewith, Lucky Canada commenced liquidation proceedings under the Bankruptcy and Insolvency Act (Canada), R.S.C. 1985, c. B-3. The Debtors expect that all proceeds from the liquidation of Lucky Canada will be used to pay Lucky Canada's creditors and the Debtors do not presently anticipate that there will be recoveries in excess of Lucky Canada's obligations. In the event that there are recoveries in excess of Lucky Canada's debts, those recoveries will flow to the Debtors.

III. Corporate and Capital Structure

A. Corporate Structure

27. As set forth on the organizational chart attached hereto as **Exhibit A**, Lucky Parent is the Company's ultimate parent. The equity interests of Lucky Parent are primarily owned by Clover Holdings and Carlos Alberini. An affiliate of Lantern Capital Partners ("**LCP**"), an affiliate of Hilco Merchant Resources LLC ("**Hilco**"), and Clover Holdings hold warrants to

purchase equity of Lucky Parent representing approximately 39.24% of the outstanding equity of Lucky Parent for a nominal price. Lucky Parent owns, directly or indirectly, each of the other Debtors and non-Debtor Lucky Canada.

28. Debtor Lucky Brand Dungarees, LLC ("**LBD**") is the borrower under the First Lien Credit Agreement (as defined below) and the Second Lien Credit Agreements. Debtor LBD Intermediate Holdings, LLC ("**Holdings**") is a guarantor under the First Lien Credit Agreement and the Second Lien Credit Agreements and does not engage in any material operations. The substantial majority of the operations of the Company occur at LBD, which undertakes corporate, wholesale, and operations functions, and Debtor Lucky Brand Dungarees Stores, LLC, which undertakes retail operations in the United States. As discussed above, the Company's Canadian operations are undertaken by non-Debtor Lucky Canada, organized under Canadian law. The Company's Puerto Rican retail operations are undertaken by Debtor Lucky PR, LLC.

B. Capital Structure

29. As set forth below, as of the Petition Date, the Debtors have outstanding funded debt obligations consisting of approximately $181.97 million. As of the Petition Date, approximately $49.27 million is outstanding under the First Lien Term Loan Facility (inclusive of principal, interest, fees, and expenses).[4] Approximately $61.31 million is outstanding under the First Lien Revolving Facility (inclusive of principal, interest, fees, and expenses), including issued letters of credit with an aggregate face amount of approximately $9.69 million. Approximately

[4] In accordance with the terms and conditions of the First Lien Documents the Debtors are obligated to the First Lien Term Lenders (as defined below) under the First Lien Credit Agreement with respect to a Prepayment Fee (as defined under the First Lien Credit Agreement) in an amount of $1,488,750.00. The Prepayment Fee is currently fully earned and due and payable in full. Notwithstanding the foregoing, the First Lien Term Lenders have agreed that only 50% of the Prepayment Fee shall be capitalized and added to principal balance of the First Lien Term Loan Facility and the balance of the Prepayment Fee shall be waived if the First Lien Obligations are Paid in Full on or before July 31, 2020.

$54.58 million (inclusive of principal, interest, fees, and expenses) is outstanding under the Second Lien Term A Loan (as defined below) and approximately $16.81 million (inclusive of principal, interest, fees, and expenses) is outstanding under the Second Lien Term B Loan (as defined below).

30. The following table summarizing the Debtors' outstanding funded debt obligations as of the Petition Date:

Funded Debt	Maturity	Approximate Principal Amount Outstanding
First Lien Term Loan Facility	November 2024	$49.27 million
First Lien Revolving Facility	November 2024	$61.31 million (including Letters of Credit in the amount of $9.69 million)
Second Lien Term A Loan	February 2025	$54.58 million
Second Lien Term B Loan	February 2025	$16.81 million
Total Funded Debt		$181.97 million

(a) *Secured Debt – First Lien Credit Agreement and Second Lien Credit Agreements*

31. Debtor LBD, as borrower (the "**Borrower**"), Holdings as holdings, Wells Fargo Bank, National Association ("**Wells Fargo**") as administrative agent, term loan agent, and collateral agent (the "**First Lien Agent**") and Gordon Brothers Finance Company, LLC are parties to the Third Amended and Restated Credit Agreement, dated as of November 12, 2019 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "**First Lien Credit Agreement**"), under which Wells Fargo and Gordon Brothers Finance Company, LLC as lenders (the "**First Lien Term Lenders**") agreed to provide to the Borrower a $50 million term loan facility (the "**First Lien Term Loan Facility**"), and Wells Fargo as lender (the "**First Lien Revolving Lender**" and together with the First Lien Term Lenders, the "**First Lien Lenders**") agreed to provide to the Borrower a $150 million revolving credit facility with a swing line sublimit of up to $15 million and a letter of credit sublimit of $25 million (the "**First Lien Revolving Facility**").

32. The First Lien Term Loan Facility and the First Lien Revolving Facility each mature on November 12, 2024. The obligations under the First Lien Credit Agreement have been unconditionally guaranteed by Holdings and the other direct and indirect domestic subsidiaries of the Borrower (collectively, the "**Guarantors**"). Lucky Parent and Lucky Canada are not Guarantors.

33. The First Lien Term Loan Facility and the First Lien Revolving Facility are secured by a first-priority interest in the Senior Collateral, which comprises substantially all of the Debtors' assets.[5] Pursuant to the First Lien Credit Agreement, the First Lien Term Lenders have priority over the First Lien Revolving Lender with respect to any proceeds from Senior Collateral that comprises Term Priority Collateral (as defined in the First Lien Credit Agreement and including, without limitation, the fixed asset categories of fixtures and equipment, intellectual property, general intangibles, commercial tort claims, permits and licenses and books and records). The First Lien Revolving Lender has priority over the First Lien Term Lenders with respect to any proceeds from all other Senior Collateral not comprising Term Priority Collateral (including, among other things, inventory, accounts receivable, and cash). Senior Collateral includes, among other things, the Company's and each Guarantor's right, title, and interest in all accounts, chattel paper, documents, equipment, general intangibles, goods and fixtures, instruments, inventory, investment property, intellectual property, and products and proceeds thereof. The Senior Collateral excludes, among other things, certain excluded contracts, certain excluded equipment, 35 percent of the voting stock of the Company's and each Guarantor's foreign subsidiaries, certain trademarks, leasehold interests in real property and products and proceeds thereof.

[5] "**Senior Collateral**" means all the "Collateral" (or equivalent term) as defined in any Collateral Document (as defined in the First Lien Credit Agreement) and shall include the Mortgaged Properties (as defined in the First Lien Credit Agreement), if any.

34. The Borrower, Holdings, Wilmington Trust, National Association, as administrative agent and collateral agent (the "**Second Lien Term Loan A Agent**") and Lucky Holdings JV, LLC as lender (the "**Second Lien Term Loan A Lender**") are parties to that certain Second Lien Credit Agreement, dated as of November 12, 2019 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "**Second Lien Term Loan A Credit Agreement**"), under which the Second Lien Term Loan A Lender provided a term loan in an aggregate principal amount of $50 million (the "**Second Lien Term A Loan**") to the Borrower. The Second Lien Term A Loan matures on February 11, 2025.

35. The Second Lien Term Loan A Credit Agreement is secured by a second-priority security interest in the Senior Collateral. The obligations under the Second Lien Term Loan A Credit Agreement have been unconditionally guaranteed by the Guarantors.

36. The Borrower, Holdings, and Clover Holdings as administrative agent and collateral agent (in such capacity, the "**Second Lien Term Loan B Agent**" and together with the Second Lien Term Loan A Agent, the "**Second Lien Agents**") and as lender (in such capacity, the "**Second Lien Term Loan B Lender**" and, collectively with the Second Lien Term Loan A Lender, the "**Second Lien Lenders**" and together with the First Lien Lenders, the "**Prepetition Lenders**") are parties to that certain Second Lien Credit Agreement, dated as of November 12, 2019 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "**Second Lien Term Loan B Credit Agreement**" and, collectively with the Second Lien Term Loan A Credit Agreement, the "**Second Lien Credit Agreements**"). The Second Lien Term Loan B Lender provided a term loan in an aggregate principal amount of $15.4 million (the "**Second Lien Term B Loan**") to the Borrower. The Second Lien Term B Loan matures on February 11, 2025. The Second Lien Term Loan B Credit Agreement is secured by a second-

priority security interest in the Senior Collateral. The obligations under the Second Lien Term Loan B Credit Agreement have been unconditionally guaranteed by the Guarantors.

(b) *The Intercreditor Agreements*

37. The rights of the First Lien Lenders and the Second Lien Lenders with respect to their shared collateral are governed by that certain Intercreditor Agreement, dated as of November 12, 2019, by and among the First Lien Agent, the Second Lien Term Loan A Agent and the Second Lien Term Loan B Agent and as acknowledged and agreed to by Holdings, the Borrower and the other Guarantors (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "**First Lien/Second Lien Intercreditor Agreement**"). The First Lien/Second Lien Intercreditor Agreement governs, among other things, the priority of distribution of the Senior Collateral and the respective rights of the First Lien Lenders and the Second Lien Lenders and their respective representatives in connection with certain bankruptcy matters, such as the provision of postpetition financing. In accordance with the First Lien/Second Lien Intercreditor Agreement: (i) the First Lien Lenders are afforded first priority with respect to Senior Collateral, and (ii) the Second Lien Lenders are afforded second priority with respect to the Senior Collateral.

38. The respective rights of the Second Lien Lenders as between themselves with respect to their respective second-priority security interests in the collateral are governed by that certain Second Lien Pari Passu Intercreditor Agreement, dated as of November 12, 2019, by and among the Second Lien Term Loan A Agent and the Second Lien Term Loan B Agent and as acknowledged and agreed to by Holdings, the Borrower and the other Guarantors (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "**Second Lien Pari Passu Intercreditor Agreement**" and together with the First Lien/Second

Lien Intercreditor Agreement, the "**Intercreditor Agreements**"). The Second Lien Pari Passu Intercreditor Agreement governs, among other things, the priority of distribution of the Senior Collateral with respect to the Second Lien Lenders' respective pari passu second-priority security interests and the respective rights of the Second Lien Term Loan A Lender and the Second Lien Term Loan B Lender in connection with certain bankruptcy matters, such as the provision of postpetition financing. In accordance with the Second Lien Pari Passu Intercreditor Agreement: (i) the Second Lien Lenders are secured on a *pari passu* basis amongst each other with respect to their respective second-priority security interests in the Senior Collateral, and (ii) the Second Lien Term Loan A Agent is entitled to exercise remedies with respect to the Senior Collateral before the Second Lien Term Loan B Agent is so entitled.

(c) *Preferred Stock and Common Stock*

39. Lucky Parent has issued 130,123,956 Preferred Units (the "**Preferred Units**") to three holders. As of the Petition Date, Clover Holdings holds approximately 89.9%, Carlos Alberini holds approximately 9.8% and the Krevlin 2005 Gift Trust holds approximately 0.3% of the Preferred Units.

40. As of the Petition Date, Lucky Parent had also issued approximately 27,859,510 Class A Common Units (the "**Class A Common Units**") to various holders. As of the Petition Date, Clover Holdings holds approximately 75% and Carlos Alberini holds approximately 13.5% of the Class A Common Units, with the remainder held by various other holders. The Preferred Units are entitled to receive return of capital prior to the Class A Common Units. Lucky Parent has also issued Class C-1 Common Units, Class C-2 Common Units, and Class E Common Units to certain employees of its subsidiaries pursuant to equity incentive plans.

(d) *Unsecured Debt*

41. In addition to their funded debt, the Debtors also have significant unsecured debt including amounts owed to trade vendors and to landlords. The Debtors routinely incur fixed, liquidated, and undisputed payment obligations in the ordinary course of business to various third-party providers of goods and services. The Debtors rely on a broad network of vendors to supply merchandise for their stores. A majority of these vendors conduct business with the Debtors on a purchase-order-by-purchase-order basis and are paid on prearranged terms. As of the Petition Date, the Debtors estimate that approximately $79 million of merchandise trade debt is due and outstanding, of which $2.3 million relates to goods provided to the Debtors in the 20 days prior to the Petition Date. As discussed in greater details in the Critical and Foreign Vendor Motion and the Lien Claimants Motion (each as defined below), certain of the trade claims (a) are entitled to statutory priority, such as under section 503(b)(9) of the Bankruptcy Code or (b) may give rise to liens in favor of shippers, warehouseman, or mechanics against the Debtors' property if unpaid.

42. Additionally, as discussed above, the Debtors operate exclusively in leased facilities and maintain over 219 real property leases. The Debtors estimate that they will accrue approximately $52 million in lease and occupancy related expenses in fiscal year 2020 (approximately $4.3 million per month).

IV. <u>Key Events Leading to Chapter 11</u>

A. Current Challenges Facing the Retail Industry

43. The Debtors' operations have generally been profitable during the past thirty years; however, a confluence of factors contributed to the Debtors' need to commence these Chapter 11 Cases. These factors include the general shift away from brick-and-mortar stores to online channels and the accompanying departure of anchor mall tenants, a highly promotional and competitive retail environment, and a shift in customer demand away from apparel to technology

and personal experiences. In addition, the COVID-19 pandemic, which has resulted in unprecedented challenges for the retail industry, caused a month-over-month decline in revenues of approximately 50%.

44. Taken together, these factors have tightened the Debtors' liquidity, with year-to-date comparable store sales declining over 50% percent and a negative year-end EBITDA of $28 million, and have complicated the Debtors' relationship with their vendors and suppliers. And, ultimately, the COVID-19 pandemic lead to diminished liquidity as the Debtors faced dwindling cash flows, inaccessible inventory, tightening trade credit, and the inability to access incremental liquidity.

45. These factors are not unique to the Debtors and a number of other retailers, including retailers in the apparel sector such as True Religion Apparel, Forever 21, and J. Crew, have recently filed for chapter 11 protection after facing similar market conditions.

(a) *COVID-19 Pandemic*

46. The COVID-19 pandemic has resulted in unprecedented challenges across most industries and has particularly impacted the retail sector. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. In the months that followed, the outbreak spread globally and led governments and other authorities in the United States and around the world to impose measures intended to reduce the spread of COVID-19, including placing restrictions on freedom of movement and business operations such as travel bans, border closings, business limitations and closures (subject to exceptions for essential operations and businesses), quarantines, and shelter-in-place orders. These measures resulted in the temporary closure of all of the Company's stores from March 17, 2020 to May 11, 2020, when the Company began slowly reopening some of its stores in locations where applicable shutdown orders had been lifted. These

restrictions have also caused an overall disruption in the Company's supply chain and operations; while its e-commerce and distribution center remain open, they are operating at a reduced capacity. As a result, there has been a substantial deterioration in the Company's operations, sales, and cash flows.

47. In response to such events, management took aggressive and prudent actions to reduce expenses and defer payment of accounts payables and inventory purchases to preserve cash on hand. These actions included furloughing substantially all of the Company's corporate and store employees (for the duration of store closures at their location and subject to reduced staffing for a phase-in period upon reopening), reducing base salaries for the Company's remaining corporate staff and senior leadership team, deferring payment of rent at the Company's stores, deferring payments to other vendors (beginning in April 2020), limiting investments in its ecommerce to necessary website and supporting functions, and suspending all capital expenditures.

48. Additionally, the Company made a draw down in the principal amount of $38 million under the First Lien Revolving Facility in March 2020. The Company is electing to take available relief under the Coronavirus Aid, Relief, and Economic Security Act (the "**CARES Act**") including deferral of payment of certain payroll taxes and customs and import duties. The Company continues to evaluate the provisions of the CARES Act and the ways in which the CARES Act could assist the Company's business or improve its liquidity.

B. Prepetition Operational Initiatives and Restructuring Efforts

49. The Company took multiple steps to try to address its capital structure and liquidity needs without a comprehensive in-court restructuring before commencing the Chapter 11 Cases.

(a) *The Debtors' Cost-Reduction Initiatives and Operational Adjustments*

50. The Debtors' management team has made significant efforts to reduce costs, improve efficiencies, and increase brand loyalty and presence.

51. Landlord Engagement. The Debtors lease all of their retail store locations and have lease and occupancy obligations of approximately $4.3 million a month. In response to their lease pressures, the Debtors began to evaluate their lease portfolio to quantify and realize the potential for lease savings. Beginning in early 2020, the Debtors undertook efforts to obtain lease concessions and rent abatements from their landlords. In connection with these efforts, the Debtors determined that they had 12 burdensome, unexpired leases and have filed the Lease Rejection Motion (as defined below) to reject these unexpired nonresidential real property leases and abandon certain *de minimis* property in connection therewith.

52. Store Closing Efforts. Recognizing the need to right-size their store footprint to align with market conditions, the Debtors undertook an extensive analysis of their stores to determine if and how many stores the Debtors should close in connection with their broader operational restructuring initiatives. The Debtors' management team and advisors ultimately determined that it was appropriate to close 13 unprofitable brick and mortar store locations (the "**Initial Closing Stores**"). In formulating the list of Initial Closing Stores, the Debtors considered, among other factors, historical store profitability, recent sales trends, the geographic market in which the store is located, the potential to realize negotiated rent reductions with applicable landlords, and specific circumstances related to a store's performance.

53. The Debtors believe that closure of these Initial Closing Stores is optimal to maximize the value of the Debtors' estates. Delay in commencing the Store Closing Sales (as defined below) would diminish the recovery tied to monetization of assets in the Initial Closing

Stores for a number of reasons. First, the Initial Closing Stores fail to generate positive cash flow and therefore are a drain on liquidity. Thus, the Debtors will realize an immediate benefit in terms of liquidity upon the sale of the assets in the Initial Closing Stores and the termination of operations at the Initial Closing Stores. Second, the swift and orderly commencement of Store Closing Sales will allow the Debtors to timely reject the applicable Initial Closing Stores leases, and therefore avoid the accrual of unnecessary administrative expenses on account of rent payments. Delaying the Store Closing Sales may cause the Debtors to incur additional postpetition rent at many of these Initial Closing Stores.

54. In order to maximize value for their creditors, the Debtors may need to close additional stores during these Chapter 11 Cases (such stores, the "**Supplemental Closing Stores**"). The decision to add any Supplemental Closing Stores will be made by the Debtors in the exercise of their reasonable business judgment and in consultation with their advisors based upon continued evaluation of performance and whether the Debtors are able to negotiate rent concessions. Although the Debtors do not currently have any plans to close any Supplemental Closing Stores, they continue to evaluate their retail footprint on a store-by-store basis, and may close stores whose performance falls below benchmark performance metrics during these Chapter 11 Cases.

55. As described in greater detail below, in anticipation of these closings, the Debtors engaged Gordon Brothers Retail Partners, LLC (the "**Consultant**") to begin liquidating the inventory in the Initial Closing Stores and otherwise preparing the Initial Closing Stores for turnover to the applicable landlords. The Debtors have filed the Store Closing Motion (as defined below) contemporaneously herewith requesting authority to continue the store-closing process through customary store-closing procedures.

56. Despite implementing these initiatives, the Company continued to face declining revenue and cash flow, as well as significant market challenges. Due to the Company's increasingly tight liquidity resulting from the factors discussed above, its key vendors began requiring shortened payment terms, including pay on delivery, prepayment, or posting of letters of credit for merchandise and other inventory purchased by the Company. This contributed to additional pressure on liquidity that the Company could not sustain.

(b) *The Debtors' Financing Initiatives*

57. 2014 Capital Structure. In February 2014, LGP acquired the Lucky Brand business from Kate Spade & Company (formerly named "Fifth & Pacific Companies, Inc."). As part of the acquisition, the Company entities were established. Concurrently with the closing of the acquisition, the Company, Holdings, and Wells Fargo as administrative agent and collateral agent, issuer, swing loan lender and lender entered into that certain Credit Agreement dated as of February 3, 2014 under which Wells Fargo provided a $100 million revolving loan (the "**2014 Facility**"). Alongside such transactions, as partial consideration for the acquisition, the Company issued an $85 million secured seller note to the seller (the "**2014 Seller Note**") pursuant to an indenture dated as of February 3, 2014 (the "**2014 Indenture**").

58. 2015 Capital Structure. In March of 2015, the Debtors undertook a refinancing of their debt (the "**2015 Refinancing**"). LBD as borrower, Holdings, and Wells Fargo as administrative agent and collateral agent, term agent, revolving lender, term lender, issuer and swing loan lender and JPMorgan Chase Bank, N.A. as revolving lender and term lender amended and restated the 2014 Facility pursuant to that certain Amended and Restated Credit Agreement dated as of March 4, 2015, under which Wells Fargo and JPMorgan Chase Bank, N.A. collectively provided a $110 million revolving loan and a $30 million term loan in each case up to the

maximum amount of such lender's respective commitments (the 2014 Facility, as amended and restated pursuant to the 2015 Refinancing, the "**2015 First Lien Facility**"). In connection with the 2015 Refinancing, the obligations under the 2014 Seller Note were repurchased by the Company and the obligations and security under the 2014 Indenture were terminated and released. LBD as borrower, Holdings, and Guggenheim Securities Holdings, LLC as administrative agent, The Bank of New York Mellon as collateral agent, Guggenheim Securities, LLC as arranger/bookrunner and Note Funding 1892, LLC as lender entered into that certain Second Lien Term Credit Agreement dated as of March 4, 2015 under which Note Funding 1892, LLC as lender provided a $40 million term loan facility (the "**2015 Second Lien Facility**").

59. June 2016 Refinancing. In June of 2016, the Debtors undertook a refinancing of their debt (the "**June 2016 Refinancing**"). As part of the June 2016 Refinancing, the 2015 First Lien Facility was amended and restated (the 2015 First Lien Facility, as amended and restated pursuant to the June 2016 Refinancing, the "**2016 First Lien Facility**") and the 2015 Second Lien Facility was amended and restated and increased in size by $17.5 million (the 2015 Second Lien Facility, as amended and restated pursuant to the June 2016 Refinancing, the "**2016 Second Lien Facility**"). In addition, LBD as borrower, Holdings, and Clover Holdings as administrative agent, collateral agent and lender entered into that certain Third Lien Credit Agreement dated June 1, 2016, under which the lender provided a $15 million term loan commitment, comprising a $12.5 million initial term commitment and a $2.5 million delayed draw term commitment (the "**Third Lien Credit Facility**").

60. Following the June 2016 Refinancing, Gordon Brothers Finance Company, LLC purchased a portion of the term loan debt under the 2016 First Lien Facility from JPMorgan Chase Bank, N.A. Shortly before the November 2019 Refinancing (as defined below), JPMorgan Chase

Bank, N.A. transferred its remaining interest in the term loan debt under the 2016 First Lien Facility to Gordon Brothers Finance Company, LLC.

61. November 2019 Refinancing. In November of 2019, the Debtors completed a refinancing of their capital structure (the "**November 2019 Refinancing**" and together with the June 2016 Refinancing, the "**Financing Transactions**"). The November 2019 Refinancing resulted in the Debtors' current capital structure. The November 2019 Refinancing involved the exchange, on a cashless rollover basis (such exchange being structured as a refinancing of the entirety of the Third Lien Credit Facility), of a portion of the Borrower's (x) outstanding principal amount of term loans under the Third Lien Credit Facility and (y) accrued payment-in-kind interest under the Third Lien Credit Facility, for new term loans under the Second Lien Term Loan B Credit Agreement in the aggregate principal amount of approximately $15.4 million. In addition, Lucky Holdings JV, LLC (a joint venture entity whose two members comprised an affiliate of each of LCP and Hilco) provided the new Second Lien Term A Loan in the aggregate principal amount of $50 million under the new Second Lien Term Loan A Credit Agreement and the 2016 Second Lien Facility was repaid in its entirety.

62. As part of the November 2019 Refinancing, the Debtors also amended and restated the 2016 First Lien Facility as the First Lien Credit Agreement, paid down approximately $12 million of the First Lien Revolving Facility, upsized the First Lien Term Loan Facility from $28.5 million to $50 million and made a draw down of approximately $22.1 million of term loans under the First Lien Term Loan Facility, which resulted in additional liquidity for the Debtors.

63. The remaining (x) outstanding principal amount of term loans under the Third Lien Credit Facility and (y) accrued payment-in-kind interest under the Third Lien Credit Facility, not exchanged for new term loans under the Second Lien Term Loan B Credit Agreement (an amount

of $259,911.97) was contributed to Lucky Parent in exchange for certain Warrants (as defined below) issued by Lucky Parent to Clover Holdings. As part of the November 2019 Refinancing, Lucky Parent, issued warrants to purchase an aggregate of 39.24% of the Preferred Units and Class A Common Units of Lucky Parent (on a fully diluted basis) (the "**Warrants**") to an affiliate of LCP, an affiliate of Hilco, and Clover Holdings. In connection with the issuance of the Warrants, the Third Amended and Restated Limited Liability Company Agreement of LBD Parent Holdings, LLC, dated as of September 29, 2017 was amended and restated as that certain Fourth Amended and Restated Limited Liability Company Agreement of LBD Parent Holdings, LLC, dated as of November 12, 2019, to reflect the issuance of the Warrants and to add certain rights afforded to the holders of the Warrants and the Units issuable upon exercise of the Warrants that were negotiated with each of LCP, Hilco, and Clover Holdings.

64. Despite management's best efforts, the significant impact of the COVID-19 crisis and shutdown of the Company's stores, when coupled with the Company's constrained liquidity, it has become apparent that the Company is not able to sustain its outstanding debt on a long-term basis and maintain the liquidity necessary to operate its business and maximize long-term enterprise value.

(c) *Special Committee and Affiliate Transaction Investigation*

65. On May 18, 2020, the board of Lucky Parent formed a Special Restructuring Committee (the "**Special Committee**") composed of Lucky Parent's independent director, Alan Fragen (the "**Independent Director**") to evaluate strategic alternatives or transactions that may be available to the Debtors that may present conflicts of interest with the Company's debt and equity holders. The Special Committee was vested with sole authority over any financing, sale, restructuring, reorganization, recapitalization, or other similar transaction ("**Strategic**

<u>Transactions</u>") in which a conflict may exist between the Company or any of its stakeholders, on the one hand, and the Company's equityholders, on the other hand (the "**<u>Potential Conflicts Matters</u>**"). The Special Committee was also tasked with reviewing the Financing Transactions and relationship between the Company and its major shareholders and lenders and to evaluate any viable causes of action with respect to such matters. The Debtors' co-counsel, YCST was engaged to assist the Special Committee in connection with this process. The Special Committee, in its sole discretion, will (i) determine (in its business judgment and with the advice of counsel) whether any matter arising in connection with, or related to, a Strategic Transaction constitutes a Potential Conflicts Matter, (ii) consider, negotiate, and approve or disapprove of any Potential Conflicts Matter, or (iii) make recommendations to the full board of Lucky Parent, that any Potential Conflicts Matter be approved by the Board. The negotiation of the Stalking Horse Purchase Agreements, the Stalking Horse Bid (as defined below), and DIP Financing on the Company's behalf was led and conducted by the Debtors' Chief Restructuring Officer and the Debtors' professionals and outside advisors under the oversight of the Independent Director. Entry into the Stalking Horse Purchase Agreements and DIP Financing was approved by the Special Committee and thereafter recommended to the full board, which subsequently consented to the actions and adopted resolutions to enter into the Stalking Horse Purchase Agreement and DIP Financing.

(d) *The Debtors' Prepetition Restructuring Efforts*

66. As noted above, the continuing challenges in the retail sector have not only caused material compression in many of the Company's customers' purchasing habits but have also pushed the Company's wholesale partners to reassess the terms of their respective business relationships with the Debtors. Since 2019, the Debtors have taken a number of steps to evaluate

strategic alternatives, enhance performance, right-size their capital structure, and position themselves for success within their current operating environment.

67. In April 2020, the Company retained BRG to assist it in exploring strategic alternatives to improve the Company's liquidity position and strengthen its ability to operate in this competitive and challenging market. The Company, with the assistance of its advisors, determined that it would need to pursue a restructuring option that significantly de-leveraged the Company while giving it enough runway to implement the cost-reduction and operational adjustments it had begun in prior years.

68. As discussed above, beginning in the spring of 2020, the Debtors and their advisors proactively engaged with their stakeholder groups on potential restructuring alternatives. Beginning in March 2020, the Debtors began to face unprecedented liquidity and operational challenges with the spread of the COVID-19 pandemic. By late March 2020, the Debtors were forced to close all retail stores consistent with governmental health guidelines and directives, which stressed the Debtors' cash liquidity. The Company's operational and liquidity-related issues were exacerbated by the pandemic and by May of 2020, the Company, with the assistance of its advisors, determined that a chapter 11 process was likely the only viable option to maximize value for stakeholders and preserve jobs.

(e) *The Debtors' Pre-Petition Marketing Efforts and Entry Into the Stalking Horse Purchase Agreement*

69. <u>2019 Marketing Process</u>. Prior to the Company's current marketing efforts, in 2019, the Company engaged Houlihan to explore options for a going-concern sale transaction and/or financing transaction (the "**<u>2019 Marketing Process</u>**"). As part of this process, Houlihan reached out to 24 parties that it believed could be potential bidders for the Company's assets. Ultimately, 16 parties expressed interest in a potential transaction and executed non-disclosure

agreements ("**NDAs**"). Parties that executed NDAs received access to an extensive data room and opportunities to speak with management. Interested parties that executed NDAs included ABG and SPARC, two of the parties that ultimately submitted the Stalking Horse LOI (as defined below). Based on the results of the 2019 Marketing Process, the Company determined that the November 2019 Refinancing was the best available option for the Company and its stakeholders. Nevertheless, Houlihan remained in contact with select interested parties to gauge interest in potential future transactions, including both strategic and financial investors.

70. 2020 Marketing Process. In May 2020, Houlihan again was engaged as investment banker and financial advisor to assist and advise the Debtors with the analysis, evaluation, pursuit, and effectuation of, among other things, a going-concern sale transaction and/or a financing transaction. Houlihan together with the Company and its other advisors, including BRG, worked diligently in the face of the Company's liquidity constraints and operational challenges to solicit and develop various strategic alternatives and commenced a sale marketing process with more than six dozen strategic and financial investors. Houlihan's familiarity with the Company, prior marketing efforts, and continued dialogue with interested parties, positioned Houlihan to expeditiously launch the Company's current marketing process, which remains ongoing.

71. Beginning on May 27, 2020, Houlihan reached out to a targeted list of nine potentially interested parties (the "**Initial Outreach**"). Houlihan selected this initial group based upon the parties' (i) familiarity with the Debtors' business and assets, (ii) ability to engage in and proceed with the sale process in a timely manner, (iii) prior interest as expressed as part of the 2019 Marketing Process, and (iv) ability to provide debtor in possession financing. Houlihan informed each of these parties that the Company required a fast-tracked transaction in order to address the Company's liquidity and operational needs and that the Debtors would likely be filing

these Chapter 11 Cases in the near-term. Any party interested in acting as a stalking horse bidder for the sale of the Debtors' assets was invited to submit an indication of interest (each, an "**IOI**") and/or a formal written letter of intent (a "**LOI**") in advance of June 15, 2020. In response to the Initial Outreach, seven potential buyers executed NDAs and received non-public information and data room access to assist in their evaluation of the Debtors' assets and their willingness to submit a proposal to act as a stalking horse bidder.

72. Subsequent to the Initial Outreach, on June 9, 2020, Houlihan reached out to an additional 22 potentially-interested parties, including both strategic and financial buyers (the "**Second Outreach**"). Similar to the Initial Outreach, Houlihan informed these parties of the Debtors' impending chapter 11 filing, their need for an expedited sale process and a desire to enter into a stalking horse agreement for the sale of the Debtors' assets. Nine (9) additional parties executed NDAs and received data room access and information regarding the Debtors' business and assets as a result of the Second Outreach.

73. Further, on June 15, 2020, Houlihan reached out to an additional 48 potentially interested parties, again including both strategic and financial buyers (the "**Third Outreach**" and, together with the Initial Outreach and Second Outreach, collectively, the "**2020 Marketing Process**"). As of the Petition Date, 11 parties that were contacted as part of the Third Outreach have executed NDAs and have been provided non-public information and data room access in order to assist such parties in their evaluation of the Debtors' business and assets.

74. The Debtors and Houlihan are continuing the process of signing up NDAs in order to provide any additional interested parties with information, and this process will continue during the Chapter 11 Cases in order to facilitate formal bids on the Debtors' assets in accordance with the Bidding Procedures (as defined in the Sale Motion).

75. Contemporaneously with the marketing process, the Debtors engaged in negotiations with the Second Lien Lenders over the terms of a consensual restructuring of the Company, including the acquisition of substantially all of the Debtors' assets pursuant to a transaction under section 363 of the Bankruptcy Code.

76. The Company Enters into a Stalking Horse Agreements. As a result of the Initial Outreach, on June 9, 2020, the Debtors received a single non-binding LOI (the "**Stalking Horse LOI**") from SPARC, ABG, each of the DIP Lenders, and the Second Lien Lenders (collectively, the "**Stalking Horse Parties**"). Houlihan, BRG, and the Company engaged in extensive arms' length, good faith negotiations with the Stalking Horse Parties to reach the terms of the Stalking Horse LOI.

77. ABG is a brand development, marketing, and entertainment company and SPARC is a leading apparel company operating under the Aeropostale and Nautica brands owned by ABG and Simon Property Group, which is one of the Company's key landlords.[6] As a result of the active engagement by both ABG and SPARC in the November 2019 Refinancing transaction and the 2019 Marketing Process and these parties' considerable retail market and industry knowledge, these parties, working with the Second Lien Lenders, were in a position to move quickly to provide a stalking horse bid that will set the baseline for an expedited sale process. The Company, with the assistance of Houlihan, continued to work closely with potential bidders to explore and address transaction structure, timing, and process considerations but the Debtors ultimately did not receive any other LOI or IOI.

78. The Stalking Horse Purchase Agreements. On July 3, 2020, the Debtors entered into the Stalking Horse Purchase Agreements. The terms of the Stalking Horse Purchase

[6] LGP is a minority equityholder in ABG.

Agreements, including the bid protections, were a necessary inducement for SPARC and ABG Lucky to enter into the Stalking Horse Purchase Agreements.

79. Based on the information available, the All Assets Bid includes cash in the amount of $140,100,000, the Specified Trade Receivables Adjustment (as defined in the All Assets Purchase Agreement), an aggregate credit bid equivalent to approximately $51,500,000, *plus* other consideration. The All Assets Purchase Agreement preserves the Company's business as a going concern, including (i) preserving much or all of the Debtors' current store footprint, (ii) contemplating the employment of many of the Company's store and other employees, (iii) continuing to source merchandise from the Company's vendor base, (iv) maintaining ongoing relationships with many of the Company's other contract counterparties and assuming certain liabilities related thereto, and (v) providing cash consideration sufficient to repay or satisfy all amounts due to the Debtors' First Lien Lenders, and provide certain wind down costs in accordance with an approved budget to facilitate the orderly winding up of the estate and confirmation of a chapter 11 liquidating plan; provided, however, that the funding of such wind-down costs shall not guarantee or otherwise ensure that such funds will prove to be sufficient for the Debtors to fund and confirm a chapter 11 plan.

80. Pursuant to the All Assets Purchase Agreement, the All Assets Bid is contingent on SPARC's ability to obtain financing for the purchase of inventory. In the event that prior to 11:59 p.m. Pacific Time on July 27, 2020, SPARC does not obtain financing (or waive) its financing contingency, then the sale will "toggle" to a sale of the Debtors' intellectual property and certain other of the Acquired Assets (the "**IP Bid**" and together with the All Assets Bid, the "**Stalking Horse Bid**") to the IP Buyer as specified in the All Assets Purchase Agreement (the "**Toggle**"); in

such event, the Company will sell and/or liquidate its remaining assets in the manner that best maximizes value to the Debtors' estates under the circumstances.

81. Based on the information available, the IP Bid has a purchase price of $90,000,000, *plus* the option to purchase inventory related to the e-commerce and wholesale business (with retail inventory, accounts receivable, and other remaining assets to be sold or otherwise liquidated).

82. The terms of the Stalking Horse Purchase Agreements were negotiated on an arm's-length, good faith basis between the Debtors, SPARC, ABG-Lucky, and each party's advisors. As described more fully herein, this transaction represents the culmination of the pre-petition marketing process that began in October of 2019.

83. The parties to the Stalking Horse Purchase Agreements agreed to seek Court approval of the fastest timeline between the Petition Date and the closing of the sale that was reasonably achievable and appropriate under the circumstances. This timeline materially reduces the risks associated with pursuing a going-concern sale (i.e., the need to continue operating the acquired assets as a going-concern during the Chapter 11 Cases), allowing the estates to realize significant benefits and value.

84. Given the considerable challenges facing the Company, especially in light of the COVID-19 pandemic which resulted in the temporary closure of all of the Company's stores and furlough of approximately 90% of the Company's employees, the Company believes that the Stalking Horse Purchase Agreements provide the Company with the best presently available opportunity to preserve an iconic American brand and protect the jobs of many of the Company's Employees. Due to the Company's significant liquidity constraints, the Company does not have the luxury of conducting a months-long marketing process and expects that the sale process contemplated by the Stalking Horse Purchase Agreements and DIP Financing, while expedited,

will allow adequate opportunity to determine if a higher or otherwise better alternative to the Stalking Horse Bid is available.

85. Although some of the Stalking Horse Parties have prepetition connections to the Debtors, the approval and negotiation of the Stalking Horse Bid and the Stalking Horse Purchase Agreements was within the sole authority of the Special Committee and Independent Director. The negotiation of the Stalking Horse Purchase Agreements, the Stalking Horse Bid, and DIP Financing on the Company's behalf was led by the Debtors' Chief Restructuring Officer and outside advisors under the oversight of the Debtors' Independent Director. At all times, the Debtors had separate legal counsel from SPARC and ABG Lucky to negotiate the Stalking Horse Bid, the Stalking Horse Purchase Agreements and the potential Sale Transaction, and Houlihan acted as an independent investment bank retained by the Debtors for the purpose of exploring strategic alternatives, marketing the Debtors' businesses and soliciting bids. Entry into the Stalking Horse Purchase Agreements and DIP Financing was approved by the Special Committee and thereafter recommended to the full board, which subsequently consented to the actions and adopted resolutions to enter into the Stalking Horse Purchase Agreements and DIP Financing. To the best of the Debtors' knowledge, information, and belief, no party has engaged in any conduct that would cause or permit the Stalking Horse Purchase Agreements to be set aside under section 363(m) of the Bankruptcy Code.

86. The Debtors, with the assistance of their advisors, are actively continuing to engage with other potential bidders to facilitate a targeted and competitive sale process. Specifically, the Debtors and Houlihan will continue marketing and soliciting postpetition in accordance with the proposed bidding procedures. Continued marketing will invite any higher or otherwise better bids or otherwise ensure the Stalking Horse Bid represents the fair value of the Company's assets.

87. During the sale process and following the closing of the sale transaction, the Debtors intend to move quickly to confirmation of a liquidating chapter 11 plan. The plan will seek to distribute the proceeds of the going-concern sale and other asset dispositions to creditors in accordance with the priority of their claims.

(b) *The Debtors' Need for DIP Financing and Use of Cash Collateral*[7]

88. As discussed above, the Debtors require immediate access to debtor in possession financing and the authority to use Cash Collateral (as defined below) to ensure that they have sufficient liquidity to operate their business and consummate a going-concern sale transaction.

89. As of the Petition Date, the Debtors have approximately $16.13 million cash on hand and require immediate access to DIP Financing and the authority to use the Prepetition Lenders "cash collateral" as defined in section 363(a) of the Bankruptcy Code ("**Cash Collateral**"). Prior to the Petition Date, the Debtors and BRG reviewed and analyzed the Debtors' projected cash needs and prepared a cash flow analysis (the "**Initial Budget**") to determine the need for and size of a DIP Financing. I believe that the Initial Budget and the corresponding projections provide an accurate reflection of the funding requirements over the identified period, will allow the Debtors to meet their obligations—including the administrative expenses of these Chapter 11 Cases—and are reasonable and appropriate under the circumstances. The Initial Budget attached to the DIP Interim Order as **Exhibit B** incorporates the funds provided by the Junior DIP Facility and access to Cash Collateral, without which the Debtors may need to liquidate immediately to the detriment of the Debtors, their stakeholders, and all other parties-in-interest.

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[7] Contemporaneously herewith the Debtors filed the *Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing The Debtors to (A) Obtain Postpetition Financing, and (B) Use Cash Collateral, (II) Granting Adequate Protection to the Prepetition Lenders, (III) Granting Liens and Superpriority Claims, (IV) Modifying the Automatic Stay, (V) Scheduling A Final Hearing, and (VI) Granting Related Relief* ("**DIP Motion**"). Capitalized terms used in this subsection but not otherwise defined herein shall have the meanings ascribed to them in the DIP Motion.

90. As described in greater detail above and in the DIP Motion, the Debtors' business is cash intensive, with significant daily and monthly costs required to satisfy obligations to vendors, employees, and landlords, among others. Without access to DIP Financing, including the use of Cash Collateral, the Debtors would be unable to operate their business and administer their estates, and their stakeholders would be immediately and irreparably harmed as a result.

91. It is my belief that the Company exercised its business judgment in the selection and negotiation of the DIP Financing. Leading up to the Petition Date and as described in greater detail in the DIP Declaration[8], the Debtors, with the assistance of their advisors, conducted a marketing process to determine if any third-party lenders would be willing to provide DIP financing. The Debtors and their advisors determined that none of the potential third-party lenders contacted was able to offer DIP financing that was on better terms than the DIP Financing negotiated with the Second Lien Lenders[9], particularly in light of the fact that the vast majority of the Debtors' assets are encumbered by liens granted to the First Lien Lenders and Second Lien Lenders, such that any potential third-party financing would have to be all or partially unsecured, be on a junior basis, "prime" the Debtors' existing secured lenders' prepetition liens, or be secured by the Debtors' limited unencumbered assets.

92. Given these facts, even if a lender offered debtor in possession financing on terms ostensibly better than those offered by the Second Lien Lenders, the Debtors believe that a third-party DIP loan would have resulted in a long, costly, and risky priming fight with the Prepetition

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8 The "**DIP Declaration**" means the *Declaration of Eric Winthrop in Support of Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing Debtors to (A) Obtain Postpetition Financing and (B) Use Cash Collateral, (II) Granting Adequate Protection to the Prepetition Lenders, (III) Granting Liens and Superpriority Claims, (IV) Modifying the Automatic Stay, (V) Scheduling a Final Hearing and (VI) Granting Related Relief* filed contemporaneously herewith.

9 The DIP Financing is being provided by LCP, Clover Holdings, and ReStore Capital, LLC, an affiliate of Hilco (in their capacities as lenders under the Junior DIP Facility, the "**DIP Lenders**"). LCP is acting as administrative and collateral agent under the Junior DIP Facility (in such capacity, the "**DIP Lender Representative**").

Lenders. Equally important, the Debtors believe that any attempt by the Debtors to compel a nonconsensual priming would undermine the global deal surrounding the Stalking Horse Purchase Agreements and corresponding DIP Financing, and harm the Debtors' ability to maximize value, all to the significant detriment of the Debtors' estates. Having received only one DIP financing proposal (the proposal from the Second Lien Lenders), the Company, with guidance from its advisors, actively negotiated the terms of the DIP Financing proposal and was able to obtain concessions from the Second Lien Lenders on a number of key provisions. Therefore, the Debtors believe that the DIP Financing offered by the Second Lien Lenders reflects the most favorable and best postpetition financing available to the Debtors, and the terms are fair and reasonable under the circumstances of these Chapter 11 Cases.

93. The DIP Financing provides the necessary funding required for these Chapter 11 Cases and for the consummation of a going-concern sale transaction. Time is of the essence in these Chapter 11 Cases. Given the challenges facing the Company, as described in detail above, the Company is faced with considerable liquidity constraints and burns a significant amount of cash in the course of operating its business. Given these factors and the challenges facing not only Lucky Brand, but other retailers as well, the Company's DIP Lenders were only willing to provide limited postpetition financing in the form of use of Cash Collateral and the Junior DIP Facility to run an expedited sale process. Importantly, the DIP Financing enables the Debtors to continue their marketing process at the outset of these Chapter 11 Cases with the hopes of procuring an even better bid for the Company's assets.

94. Preserving value for the benefit of the Debtors' estates depends in large part on the Debtors proceeding swiftly to consummating a value-maximizing transaction while minimizing the effects of the Debtors' Chapter 11 Cases on the Debtors' iconic brand. Given the Debtors'

strained relationships with key suppliers and landlords, largely resulting from the Debtors' liquidity constraints resulting from the COVID-19 pandemic, the Debtors need to effectuate a going-concern sale transaction in a quick and orderly fashion to preserve these relationships and ensure the long-term viability of the Company. The Debtors intend to proceed swiftly with a fair and efficient process to preserve and maximize the value of the Debtors' business on a going-concern basis while protecting the jobs of its employees.

95. I believe that the Company ultimately obtained a reasonable proposal from the Second Lien Lenders that meets the Company's liquidity needs at this critical juncture and should be approved.

V. The First Day Motions

96. In furtherance of the objective of a value-maximizing reorganization, the Debtors have sought approval of the First Day Motions and related orders (the "**Proposed Orders**"), and respectfully request that the Court consider entering the Proposed Orders granting such First Day Motions. For the avoidance of doubt, the Debtors seek authority, but not direction, to pay amounts or satisfy obligations with respect to the relief requested in any of the First Day Motions.[10]

97. I have reviewed each of the First Day Motions, Proposed Orders, and exhibits thereto (or have otherwise had their contents explained to me), and the facts set forth therein are true and correct to the best of my knowledge, information, and belief. Moreover, I believe that the relief sought in each of the First Day Motions (a) is vital to enabling the Debtors to make the transition to, and operate in, chapter 11 with minimum interruptions and disruptions to their business or loss of productivity or value and (b) constitutes a critical element in the Debtors' ability

[10] Capitalized terms used below in the descriptions of the First Day Motions and not otherwise defined herein shall have the meanings ascribed to them in the applicable First Day Motion.

to successfully maximize value for the benefit of their estates. The First Day Motions are comprised of the following:

C. Administrative Motions

(a) *Motion of Debtors for Order (I) Authorizing Joint Administration of Chapter 11 Cases and (II) Granting Related Relief* ("**Joint Administration Motion**")

98. The Debtors seek entry of an order directing procedural consolidation and joint administration of the Chapter 11 Cases for procedural purposes only pursuant to Bankruptcy Rule 1015(b) and Local Rule 1015–1 and that the Court maintain one file and one docket for all of the Chapter 11 Cases under the lead case, Lucky Brand Dungarees, LLC.

99. I believe that joint administration of the Chapter 11 Cases will save time and money and avoid duplicative and potentially confusing filings by permitting counsel for all parties in interest to use a single caption on the numerous documents that will be served and filed and file the papers in one case rather than in multiple cases. Moreover, the Court will be relieved of the burden of entering duplicative orders and maintaining duplicative files as joint administration of the Chapter 11 Cases will permit the Clerk of the Court to use a single general docket for all of the Debtors' cases.

100. Because the Debtors seek only administrative, not substantive consolidation of the estates, joint administration will not adversely affect the Debtors' respective constituencies. Each creditor and other party in interest will maintain whatever rights it has against the particular estate in which it asserts a claim or right. Thus, all creditors will benefit from the reduced costs as a result of such joint administration.

101. Accordingly, I believe that the Court directing the joint administration of the Chapter 11 Cases is in the best interests of the Debtors, their estates, and all parties in interest and should be granted in all respects.

(b) *Debtors' Application for Authority to Appoint Epiq Corporate Restructuring, LLC as Claims and Noticing Agent Effective As of the Petition Date* ("**Epiq Retention Application**")

102. The Debtors seek entry of an order appointing Epiq Corporate Restructuring, LLC ("**Epiq**") as claims and noticing agent (the "**Claims and Noticing Agent**") in the Debtors' Chapter 11 Cases, which will include Epiq assuming full responsibility for the distribution of notices and the maintenance, processing, and docketing of proofs of claim filed in these Chapter 11 Cases. The terms of Epiq's proposed retention are set forth in the Standard Services Agreement, between the Debtors and Epiq (the "**Services Agreement**"), a copy of which is attached to the Epiq Retention Application as **Exhibit C**; *provided*, *however*, that the Debtors are seeking approval solely of the terms and provisions as set forth in the Epiq Retention Application and the Order attached thereto.

103. As further described in the Epiq Retention Application, Epiq's duties will include claims management, noticing, and related functions. I believe that the Debtors' selection of Epiq to serve as Claims and Noticing Agent has satisfied the Claims Agent Protocol, in that the Debtors have obtained and reviewed engagement proposals from at least two other court-approved claims and noticing agents to ensure selection through a competitive process. Further, I am informed that Local Rules 2002-1(f) requires, in all cases with more than 200 creditors (such as the Chapter 11 Cases), absent leave of the Court, a debtor to file a motion to retain a noticing agent on the first day of the case or within seven days thereafter. The Epiq Retention Application satisfies such requirement.

104. Moreover, I believe that, based on all engagement proposals obtained and reviewed, Epiq's rates are competitive and reasonable given Epiq's quality of services and expertise. Appointing Epiq as the Debtors' Claims and Noticing Agent will maximize the efficiency of the

distribution of notices and the processing of claims and therefore I believe the relief requested in the Epiq Retention Application should be granted.

D. Business Operations Motions

(a) Motion of Debtors for Interim and Final Orders (I) Authorizing Debtors to (A) Continue Operating Existing Cash Management System, (B) Honor Certain Prepetition Obligations Related Thereto, (C) Maintain Existing Business Forms, and (D) Continue to Perform Intercompany Transactions, and (II) Granting Related Relief ("**Cash Management Motion**")

105. By the Cash Management Motion, the Debtors request (i) authority to (a) continue to operate their existing cash management system, (b) honor certain prepetition obligations related thereto, (c) maintain existing bank accounts and business forms, and (d) continue to perform Intercompany Transactions in the ordinary course of business, (ii) waiving certain requirements under section 345 of the Bankruptcy Code and the U.S. Trustee Guidelines, and (iii) granting related relief.

106. I have been informed that, in the ordinary course of their business, the Debtors operate an integrated, centralized cash management system (the "**Cash Management System**") to collect, transfer, and distribute funds generated by their operations, and to facilitate cash monitoring, forecasting, and reporting. I understand that, through the Cash Management System, the Debtors' treasury department reconciles, on a daily basis, the Debtors' books and records to ensure that all transfers are accounted for properly.

107. As detailed in the Cash Management Motion, the Cash Management System is comprised of: (i) four store depository accounts that collect cash and checks from sales at the Debtors' retail stores, (ii) one lockbox account that receives payments from wholesale customers and licensees, (iii) one concentration account that receives funds swept from both the lockbox account and one of the store accounts, (iv) one corporate account that receives electronic collections from debit and credit card transactions, e-commerce sales, and other miscellaneous

receipts, as well as funds swept from the concentration account, (v) one master concentration account that serves as the Debtors' main operating account, and (vi) four disbursement accounts (collectively, the "**Bank Accounts**" and the banks at which the bank accounts are held, the "**Banks**").

108. I understand that, in the ordinary course of business, the Debtors engage in routine business relationships with each other (the "**Intercompany Transactions**") related to, *inter alia*, the collection of store revenues and credit card receivables and payment of expenses, which may result in intercompany receivables and payables (the "**Intercompany Balances**"). I understand that these Intercompany Transactions are typically conducted pursuant to intercompany trade arrangements and joint use of certain shared service platforms, among others. I understand that through the Cash Management System, the Debtors closely track all fund transfers in their respective accounting system and, therefore, can ascertain, trace, and account for all Intercompany Transactions. I believe any interruption of the Intercompany Transactions would severely disrupt the Debtors' operations and result in great harm to the Debtors' estates and their stakeholders.

109. As described above, the Cash Management System is complex and critical to the ongoing stability of the Debtors' business and transition into chapter 11. In sum, the Debtors' existing cash management and intercompany accounting and transacting procedures are essential to the orderly operation of the Debtors' businesses. I believe requiring the Debtors to alter their Cash Management System would place a needless and excessive administrative burden on the Debtors and impose significant costs to the Debtors' estates. Accordingly, I believe that the continuation of the Debtors Cash Management System is in the best interests of the Debtors, their estates, and all parties in interest.

(b) *Omnibus Motion of Debtors for Entry of Order (I) Authorizing Debtors to (A) Reject Certain Unexpired Leases, and (B) Abandon Any Remaining Person Property in Connection Therewith, and (II) Granting Related Relief* (the "**Lease Rejection Motion**")

110. By the Lease Rejection Motion, the Debtors seek to reject 12 unexpired leases and to abandon certain property in connection therewith, effective as of the Petition Date.

111. In the months leading up to the Petition Date, the Debtors' management team and advisors engaged in an extensive store-by-store performance analysis of all existing stores to evaluate, among other factors, historical and recent store profitability, historical and recent sales trends, occupancy costs, the geographic market in which each store is located, the mall in which each store is located, the potential to negotiate rent reductions with the applicable landlords, and specific operational circumstances related to each store's performance. As a result of these efforts, the Debtors have identified 12 retail stores as underperforming stores, all of which were closed prior to the Petition Date and are currently vacant (the "**Vacant Stores**"). The Debtors seek to reject the 12 leases related to the Vacant Stores (the "**Vacant Store Leases**"). The Debtors and their advisors evaluated and analyzed the Vacant Stores and the applicable Vacant Store Leases and have determined, in the exercise of their sound business judgment, that there is no net benefit that is likely to be realized from the Debtors' continued efforts to retain and market the Vacant Store Leases and that there is little, if any, likelihood that the Debtors will be able to realize value from the Vacant Store Leases. Further, the cost of maintaining the Vacant Stores outweighs any revenues that the Vacant Stores currently generate or are likely to generate in the future and, indeed, the Vacant Stores have been vacated as of the Petition Date. It is my understanding that the Debtors have already physically vacated the properties, have returned the keys to the applicable landlords and notified the landlords of their intent to reject the applicable Vacant Store Lease. Accordingly, the Vacant Store Leases should be rejected.

112. In connection with the rejection of the Vacant Store Leases, the Debtors seek authority to abandon certain remaining property at the Vacant Stores (the "**<u>Remaining Property</u>**"). I believe the Remaining Property is of inconsequential value to the Debtors' estates, and the costs to the Debtors of removing or storing the Remaining Property will exceed any realistic economic benefit that might be realized by retaining such property. Accordingly, the Debtors have determined, in the exercise of their sound business judgment, that abandonment of the Remaining Property will be in the best interests of the Debtors and their estates.

113. The Debtors seek authority to reject the Vacant Stores Leases effective as of the Petition Date, and I believe such relief should be granted.

(c) Motion of Debtors for Entry of Interim and Final Orders (I) Approving (A) Procedures for Store Closing Sales, (B) Customary Bonuses to Non-Insider Employees of Closing Stores, and (C) Assumption of Consulting Agreement, and (II) Granting Related Relief (the "**<u>Store Closing Motion</u>**")

114. By the Store Closing Motion, the Debtors seek to implement an important component of the Debtors' go-forward business plan and chapter 11 objectives. By the Store Closing Motion, the Debtors seek an order (i) approving procedures (the "**<u>Store Closing Procedures</u>**") to sell inventory, furniture, fixture, and equipment ("**<u>FF&E</u>**"), and other assets (the "**<u>Store Closing Assets</u>**") in the Closing Stores (such sales, the "**<u>Store Closing Sales</u>**") (ii) to pay customary bonuses to non-insider employees of the Closing Stores where Store Closing Sales will occur, and (iii) approving the entrance into and assumption of that certain consulting agreement by and between Lucky Brand Dungarees, LLC and the Consultant (the "**<u>Consulting Agreement</u>**"). I believe the Store Closing Procedures are an important tool for the Debtors to reinvigorate their strong underlying business and best position the Debtors' business for go forward success.

115. In deciding which stores to close, the Debtors' management team and advisors conducted an extensive store-by-store performance analysis of all existing stores to evaluate,

among other factors, historical and recent store profitability, historical and recent sales trends, occupancy costs, the geographic market in which each store is located, the mall in which each store is located, the potential to negotiate rent reductions with the applicable landlords, and specific operational circumstances related to each store's performance (such analysis, the "**Performance Evaluation**"). After conducting the Performance Evaluation, the Debtors' management team and advisors determined that it was appropriate to liquidate their inventory at underperforming stores and move to reject underlying leases as soon as possible upon the conclusion of the Store Closing Sales, thereby avoiding unnecessary incurrence of significant administrative expense claims.

116. The Debtors have identified 13 Initial Closing Stores. The Debtors continue to evaluate their entire lease portfolio in an effort to identify opportunities for cost savings, including the possibility of seeking rent concessions.

117. In order to most efficiently and effectively implement the Store Closing Procedures and conduct the Store Closing Sales, the Debtors have engaged the Consultant, a liquidation consulting firm with experience in conducting sales similar to those contemplated by the Store Closing Motion. I believe retaining a liquidation consulting firm, such as the Consultant, will achieve the maximum value for the Store Closing Assets and minimize administrative expenses. In selecting a liquidation consulting firm, the Debtors, with the assistance of BRG, reached out to three (3) national liquidation firms to solicit proposals from such firms to serve as a consultant to the Debtors in connection with the Store Closing Sales. The Debtors received two (2) proposals and ultimately, after reviewing the proposals and consulting with their advisors, the Debtors selected the Consultant, and the terms set forth in the Consulting Agreement as providing the best means to conduct the Store Closing Sales. It is my understanding that the terms and conditions of the Consulting Agreement are the product of arm's-length negotiations, are reasonable, and were

the best economic terms available to the Debtors, and that assumption of the Consulting Agreement is an exercise of the Debtors sound business judgment that will maximize value for the Debtors' estates and creditors.

118. Accordingly, the Debtors and Consultant entered into the Consulting Agreement, attached as **Exhibit E** to the Store Closing Motion, which will govern the terms of the Consultant's engagement. The Consulting Agreement will enable the Debtors to use the experience, skills, and resources of the Consultant to effectively and efficiently assist with the Store Closing Sales and, thus, significantly improve the potential value to be received through the Store Closing Sales for the benefit of all stakeholders.

119. Finally, pursuant to the Store Closing Motion, the Debtors are requesting the authority, but not the obligation, to pay a (i) $2,500 incentive payment to non-insider store managers, (ii) $1,500 incentive payment to assistant store managers, (iii) $500 incentive payment to part-time supervisors, and (iv) $250 incentive payment to part-time sales associates, (each, a "**Store Closing Bonus**"), each who work at the Closing Stores where Store Closing Sales will occur and who remain employed by the Debtors during the Store Closing Sales (the "**Store Closing Bonus Plan**"). None of the individuals entitled to receive bonus payments under this program are "insiders" as that term is defined in section 101(31) of the Bankruptcy Code. The total aggregate cost of the Store Closing Bonus Plan will vary depending on how many stores ultimately conduct Store Closing Sales. I believe that the Store Closing Bonus Plan is necessary to incentivize the employees to return to work and to motivate them during the Store Closing Sales. In addition, such incentive payments will enable the Debtors to retain the employees who are necessary to successfully complete the Store Closing Sales. Further, providing such non-insider bonus benefits is critical to ensuring that key employees that will be affected by the reduction in the Debtors'

workforce due to the Store Closings will continue to provide critical services to the Debtors during the ongoing store closing process. For the avoidance of doubt, the Debtors do not propose to make any payment on account of Store Closing Bonuses to any insiders.

120. I believe that implementing the Store Closing Procedures, including providing the Store Closing Bonuses, will allow the Debtors to avoid payment of administrative rent that is not beneficial to the Debtors and their estates, improve the Debtors' liquidity, focus on their larger sale process, and maximize creditor recoveries. Any interruption or delay in the Debtors' ability to efficiently close the Closing Stores during these Chapter 11 Cases could have serious negative consequences for the Debtors' estates. Thus, to maintain the value of the Store Closing Assets, it is important that the Court permit the Debtors flexibility to act in the most expeditious and efficient manner possible. I believe that there is sufficient business justification for the Debtors to begin immediately implementing the Store Closing Procedures with the assistance of the Consultant on the terms and conditions of the Consultant Agreement.

121. Accordingly, I believe that the relief requested in the Store Closing Motion is in the best interests of the Debtors, their estates, and all parties in interest and the relief request therein should be granted in all respects.

(d) Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing Debtors to (A) Continue to Maintain Their Insurance Policies and Programs, and (B) Honor all Insurance Obligations, and (II) Granting Related Relief (the "**Insurance Motion**")

122. By the Insurance Motion, the Debtors request (i) authority to (a) continue to maintain their Insurance Policies and Programs, (b) honor their Insurance Obligations in the ordinary course of business during the administration of the Chapter 11 Cases, including paying any prepetition Insurance Obligations and amounts owed to the Insurance Service Providers, and (c) modify the automatic stay if necessary to permit the Debtors' employees to proceed with any claims they may have under the Workers' Compensation Program, and (ii) granting related relief.

In furtherance of the foregoing, the Debtors also seek authority to increase, renew, or extend their insurance coverage if they determine, in their reasonable business judgment, that such action is necessary or appropriate.

123. I understand that in connection with the operation of the Debtors' businesses and the management of their properties, the Debtors maintain various liability, property, and other insurance policies, which provide the Debtors with insurance related to, among other things, general liability, excess liability, commercial umbrella, directors' and officers' liability, foreign liability, crime, property, foreign property, automobile, personal accident and travel, cyber liability, terrorism, and marine cargo and war risks coverage through several different insurance carriers. I believe the continuation of these policies is necessary to the ongoing operations of the Debtors' businesses. I understand that to secure payment of Debtors' obligations under the Insurance Policies, the Debtors posted collateral in the form of letters of credit (the "**Collateral**"). As of the Petition Date, the aggregate amount of outstanding Collateral posted by the Debtors in support of their Insurance Policies is $510,000. While the Debtors do not believe they owe any amounts on account of the Insurance Policies, by the Insurance Motion, the Debtors seek authority to pay their Insurance Premiums as they come due and to post any Collateral in connection with the Insurance Policies in the ordinary course of business throughout the Chapter 11 Cases, whether arising from the prepetition or postpetition period.

124. I understand that the Debtors are contractually and legally obligated to maintain certain types of insurance, and further, that the Debtors must maintain certain of the Insurance Policies and Programs in order to comply with the operating guidelines of the Office of the United States Trustee for the District of Delaware. Additionally, I believe the Debtors would be exposed to significant liability if the Insurance Policies and Programs were allowed to lapse or terminate

and that such exposure could have a materially adverse impact on the Debtors' chapter 11 strategy and their ability to maximize value for their stakeholders.

125. I understand that the Debtors also maintain workers compensation insurance in each of the states and territories in which they operate (the "**Workers' Compensation Program**"). It is my understanding that applicable state law mandates that certain Debtors maintain workers' compensation coverage for their employees, or the Debtors could be prohibited from operating their stores. The Debtors' failure to maintain the Workers' Compensation Program could jeopardize their coverage and expose the Debtors to fines and other adverse actions by state workers' compensation boards. The Debtors pay an annual premium of $379,061 (excluding commission) based upon a fixed rate established and billed by the Workers' Compensation Insurer (the "**Workers' Compensation Insurance Premium**"). None of the Debtors' Workers' Compensation Insurance Premiums will become due and payable during the Interim Period. Nevertheless, for the reasons states above and in the Insurance Motion, the Debtors seek authority to maintain their Workers' Compensation Program in the ordinary course of business, and to pay any obligations arising under or in connection with the Workers' Compensation Program, including their Workers' Compensation Insurance Premiums as they come due, and the posting of any Collateral in connection with the Workers' Compensation Program and any prior workers' compensation programs, throughout the Chapter 11 Cases.

126. I understand that the Debtors utilize Marsh Risk & Insurance Services and Lockton Companies LLP and affiliates as their insurance brokers (the **Insurance Service Providers**") to assist with the procurement and negotiation of certain Insurance Policies and, in certain circumstances, to remit payment to the Insurers on behalf of the Debtors. In exchange for their services, the Insurance Service Providers assess fees for their services based on a percentage of

the insurance premiums paid by the Debtors (the "**Service Providers' Fees**"). The Debtors estimate that, on average, they pay approximately $413,000 on an annual basis on account of the Service Providers' Fees. Although the Debtors believe they are current with respect to their payment of Service Providers' Fees, the Debtors estimate that, as of the Petition Date, they owe approximately $90,000 in Service Providers' Fees, all of which will become due and payable during the Interim Period. I believe losing the services provided by the Insurance Service Providers would result in a costly disruption to the Debtors' businesses and would detract from efficient administration of the Chapter 11 Cases. As such, I believe it is critical that the Debtors be given authority to pay the Services Providers' Fees as they come due and owing during the Chapter 11 Cases.

127. For all the reasons stated above, I believe that the relief requested in the Insurance Motion is in the best interests of the Debtors, their estates, and all parties in interest and should be granted in all respects.

(e) Motion of Debtors for Entry of Interim and Final Orders (I) Prohibiting Utility Providers From Altering, Refusing, or Discontinuing Service, (II) Approving Proposed Adequate Assurance of Payment, (III) Establishing Procedures for Resolving Requests for Additional Adequate Assurance of Payment, and (IV) Granting Related Relief (the "**Utilities Motion**")

128. By the Utilities Motion, the Debtors request entry of interim and final orders (i) approving the Debtors' proposed form of adequate assurance of payment to utility providers, (ii) establishing procedures for determining adequate assurance of payment for future utility services, (iii) prohibiting utility providers from altering, refusing, or discontinuing utility service on account of the commencement of these Chapter 11 Cases and/or outstanding prepetition invoices, (iv) authorizing the Debtors to honor obligations to the Payment Processors in the ordinary course of business, and (v) granting related relief.

129. The Debtors make utility payments in one of three ways, (i) by direct payment to a Utility Provider, (ii) through Payment Processors (third parties who receive, process, and review the Debtors' utility bills), or (iii) via a landlord through rent payments. Approximately 165 utility providers (collectively, the "**Utility Providers**") provide services to the Debtors.

130. Preserving utility services on an uninterrupted basis is essential to the Debtors' ongoing operations. In addition, the Debtors owe the Payment Processors approximately $6,000 on account of Service Fees, and honoring such prepetition obligations will ensure that the Payment Processors will not cease to remit utility payments to the Utility Providers and that those payments are remitted without delay. The Debtors operate a combination of more than 220 stores and locations in the United States and maintain their headquarter offices in Los Angeles, CA with additional offices and showrooms in Los Angeles and New York, NY, and any interruption in utility services—even for a brief period of time—would seriously disrupt the Debtors' ability to continue operations and service their customers. Such a result could seriously jeopardize the Debtors' chapter 11 objectives and, ultimately, creditor recoveries. Therefore, it is critical that the provision of utility payment processing services to the Debtors continue on an uninterrupted basis throughout these Chapter 11 Cases.

131. The Debtors intend to pay postpetition obligations owed to the Utility Providers in a timely manner. The Debtors expect that their cash on hand, plus cash flows from operations and their proposed use of cash collateral and debtor-in-possession financing will be sufficient to pay postpetition obligations related to their Utility Services in the ordinary course of business. However, in accordance with section 366(c)(2) of the Bankruptcy Code, the Debtors propose to depositing into a newly-created segregating account for the benefit of the Utility Providers (the "**Adequate Assurance Account**") cash in an amount equal to 50% of the Debtors' monthly

payments for Utility Services, which amount will be calculated using the historical average for such payments over a period of time, ranging from two to twelve months (the "**Adequate Assurance Deposit**").

132. The Adequate Assurance Deposit will be held by the Debtors in the Adequate Assurance Account for the benefit of the Utility Providers identified on the Utility Service List during the pendency of the Chapter 11 Cases. The total amount of the Adequate Assurance Deposit will be $269,800.

133. I believe that the Adequate Assurance Deposit, in conjunction with cash on hand, cash flow from operations, and the Debtors' proposed use of cash collateral and debtor-in-possession financing, demonstrate the Debtors' ability to pay for future Utility Services in the ordinary course of business (collectively, the "**Proposed Adequate Assurance**") and constitutes sufficient adequate assurance to the Utility Providers. Additionally, if any Utility Provider believes it is entitled to additional or different adequate assurance based on individualized circumstances, it may follow the procedures described in the Utilities Motion (the "**Adequate Assurance Procedures**").

134. Together, the Debtors' ability to continue paying the Utility Providers, the Proposed Adequate Assurance, and the Adequate Assurance Procedures are sufficient and as such, the relief requested in the Utilities Motion should be granted.

(f) *Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing Debtors to (A) Pay Prepetition Wages, Salaries, Withholding Obligations and Other Compensation and Benefits, (B) Maintain Employee Benefits Programs, and (C) Pay Related Administrative Obligations, and (II) Granting Related Relief* (the "**Employee Wages Motion**")

135. By the Employee Wages Motion, the Debtors request (i) authority to (a) pay, in their sole discretion, all prepetition amounts required under or related to the Debtors' Compensation Obligations, Employee Incentive Programs, Reimbursable Expenses, Withholding

Obligations, Payroll Maintenance Fees, Employee Benefits Programs, and Supplemental Workforce Obligations, (b) continue their prepetition compensation practices, programs, benefits, and policies for their employees and independent contractors, as were in effect as of the date hereof (as may be modified, amended, or supplemented from time to time in the ordinary course of the Debtors' businesses, collectively), and (c) honor and pay any related administrative fees, costs, expenses, and obligations arising thereunder, and (ii) granting related relief.

136. The relief requested in the Employee Wages Motion, includes compensation for the Debtors' full-time, part-time, and temporary working employees and independent contractors, who provide services related to various aspects of the Debtors' business and operations and are vital to their business. Authorizing the Debtors to pay prepetition wages, employee benefits, and similar items will benefit the Debtors' estates and their creditors by allowing the Debtors' business operations to continue without interruption. Indeed, without the relief requested in the Employee Wages Motion being granted, the Debtors' Employees may seek alternative opportunities perhaps with the Debtors' competitors. The loss of valuable Employees, who are the lifeblood of the Debtors' operations, would deplete the Debtors' workforce, thereby hindering the Debtors' ability to meet their customer obligations and, likely, diminishing stakeholder confidence in the Debtors' ability to successfully carry out their chapter 11 strategy.

137. I believe the Debtors' workforce relies on the Debtors' compensation, benefits and reimbursement of expenses to satisfy daily living expenses. As such, I believe the Debtors' workforce will be exposed to significant financial difficulties at an already difficult time if the Debtors are not permitted to honor the obligations the Debtors have made to their workforce. Moreover, if the Debtors are unable to satisfy such obligations, I believe, morale and loyalty will be jeopardized at a time when such support is critical.

(g) *Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing Debtors to Pay Certain Prepetition Taxes and Fees, and (II) Granting Related Relief* ("**Taxes Motion**")

138. By the Taxes Motion, the Debtors seek entry of interim and final orders (i) authorizing, but not directing, the Debtors to pay certain prepetition taxes, assessments, fees, and other charges in the ordinary course of business, including any such taxes, assessments, fees, and charges subsequently determined upon audit, or otherwise, to be owed (collectively, the "**Taxes and Fees**") in an amount up to $904,998 on an interim basis and in an amount up to $1,325,520 on a final basis, and (ii) granting related relief.

139. I understand that in the ordinary course of business, the Debtors collect, withhold, and incur an assortment of Taxes and Fees that they remit periodically to various federal, state, and local taxing, licensing, regulatory, and other governmental authorities (collectively, the "**Taxing Authorities**"). The Taxes and Fees include (i) Sales and Use Taxes, (ii) State Income Taxes and Franchise Taxes, (iii) Personal Property Taxes, and (iv) Fees and Licenses. I understand that the Debtors also seek to pay certain Taxes and Fees to, among other things, prevent Taxing Authorities from taking actions that may interfere with the Debtors' administration of their Chapter 11 Cases. I understand that such interference could include bringing personal liability actions against directors, officers, and other key employees, asserting liens on the Debtors' property, or assessing penalties or significant interest on past-due taxes.

140. I believe that nonpayment of the Taxes and Fees could cause certain Taxing Authorities to take adverse action against the Debtors or the chapter 11 estates, which could impose significant costs on the Debtors' estates. Additionally, Taxing Authorities could impose penalties on and charge the Debtors accrued interest for their failure to pay certain Taxes and Fees. Continued non-payment could result in tax levies and even store closures. I believe that neither the Debtors' businesses nor their chapter 11 strategy can afford to endure such needless setbacks.

141. For the reasons stated above, I believe that the relief requested in the Taxes Motion is in the best interests of the Debtors estates, their creditors and all other parties in interest, as such relief will enable the Debtors to continue to operate their business with minimal disruptions.

(h) *Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing the Debtors to Pay Certain Prepetition Obligations to Critical Vendors and Foreign Vendors, and (II) Granting Related Relief* ("**Critical and Foreign Vendor Motion**")

142. By the Critical and Foreign Vendor Motion, the Debtors seek entry of interim and final orders (i) authorizing, but not directing, the Debtors to pay non-priority, prepetition claims held by (a) Critical Vendors and Foreign Vendors (each as defined herein) in an amount not to exceed an aggregate of $750,000 on an interim basis (the "**Interim Vendor Cap**") and $1,000,000 on a final basis (the "**Final Vendor Cap**" and, together with the Interim Vendor Cap, the "**Vendor Caps**"), and (ii) granting related relief.

143. The success of the Debtors' businesses derives in large part from their ability to sell a broad and dynamic array of fashionable and unique merchandise to their customers. I believe it is essential that the Debtors be able to maintain the highest levels of quality at competitive price points to preserve the confidence of the Debtors' individual customers. To this end, the Debtors have built a global supply chain that can respond effectively to the Debtors' product needs. This network is comprised of the Debtors' essential vendors and service providers (the "**Critical Vendors**") and, in particular, such vendors located outside the United States (the "**Foreign Vendors**" and, together with the Critical Vendors, the "**Vendors**"). These Vendors offer highly customized products and services to the Debtors, which I believe, makes it challenging for the Debtors to replace and/or consolidate Vendors on short notice. I understand the Debtors' product development timeline spans several months over the course of a calendar year. Once a Vendor has been engaged and begins the cycle of product design, testing, and manufacturing,

replacing such Vendor would not only be cost-prohibitive but could also lead to production delays or reduction in the quality or quantity of the Debtors' inventory.

144. I believe maintaining a steady supply of merchandise requires healthy and stable relationships with the Vendors, and that the failure to pay the Vendors would jeopardize the Debtors' operational success. I believe any disruptions to the Debtors' supply chain would likely have an immediate effect on the Debtors' operations in terms of their ability to turn over in-demand merchandise quickly and to assure their customers will continue to stock the quality and quantity of inventory they have come to expect. I believe that if the Debtors fail to pay prepetition claims held by certain Vendors (the "**Vendor Claims**"), the Vendors no longer be willing to engage on those terms, and the Debtors may in turn be prevented from offering competitive prices to their customers.

145. I understand the Debtors engaged in a comprehensive process to identify the Vendors. Many of the Vendors are invaluable to the Debtors' operations, as such vendors are sole- or limited-source or high-volume suppliers of certain popular branded or otherwise "in-demand" goods (due to regional or geographic preferences or seasonal demand) or other "high-turnover" goods. The Debtors do not have long-term supply agreements with most of their Vendors and instead source goods on an order-by-order basis. As a result, the Debtors have limited leverage to compel performance from Vendors on commercially reasonable terms. The Debtors' position is further weakened by their inability to obtain certain branded products in highest demand from alternative sources.

146. I believe paying the Vendor Claims represents a sound exercise of the Debtors' business judgment and is necessary to avoid immediate and irreparable harm to their business. Given the nature of the goods and services provided by the Vendors, the consequences if the

Vendors cease providing such goods and services to the Debtors, and the resulting loss of value to the Debtors' estates, I believe it is essential that the Debtors are given authority to pay the Vendor Claims. The Debtors' authority to address their Vendor Claims in the initial days of these cases will send a clear signal to their suppliers and customers that the Debtors are both willing and able to conduct business as usual after the Petition Date. As such, I believe the relief requested in the Critical and Foreign Vendor Motion should be granted.

(i) *Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing Debtors to Pay Certain Prepetition Claims of Shippers, Warehousemen, and Import Claimants, (II) Confirming Administrative Expense Priority of Undisputed and Outstanding Prepetition Orders, and (III) Granting Related Relief* ("**Lien Claimants Motion**")

147. Through the Lien Claimants Motion, the Debtors seek entry of interim and final orders, (i) authorizing, but not directing, the Debtors to pay, without further order of the Court prepetition claims held by: (a) Shippers in an amount not to exceed $1,060,202 upon entry of the Interim Order (the "**Interim Shipping Claims Cap**") and $1,060,202 upon entry of the Final Order (the "**Final Shipping Claims Cap**" and with the Interim Shipping Claims Cap, the "**Shipping Claims Caps**"), (b) Warehousemen in an amount not to exceed $625,148 upon entry of the Interim Order (the "**Interim Warehousemen Claims Cap**") and $625,148 upon entry of the Final Order (the "**Final Warehousemen Claims Cap**" and with the Interim Warehousemen Claims Cap, the "**Warehousemen Claims Caps**"), and (c) Import Claimants in an amount not to exceed $3,920,595 upon entry of the Interim Order (the "**Interim Import Claims Cap**") and $4,358,095 upon entry of the Final Order (the "**Final Import Claims Cap**" and with the Interim Import Claims Cap, the "**Import Claims Caps**") and to post any collateral associated with such Import Charges, (ii) confirming the administrative expense priority status of Outstanding Orders and authorizing, but not directing, the Debtors to pay prepetition amounts related to the Outstanding Orders, and (iii) granting related relief.

148. As discussed in the Lien Claimants Motion, as a retailer, the Debtors' businesses depend on the uninterrupted flow of inventory and other goods through their supply chain and distribution network, including the purchase, importation, warehousing, and shipment of the Debtors' inventory, merchandise, and other materials related to their ongoing operations (the "**Merchandise**"). Generally, the Debtors source Merchandise from third-party manufacturers (collectively, the "**Vendors**"). The substantial majority of the Debtors' Vendors are located outside the United States and the Debtors' ability to operate in the ordinary course therefore depends on their concurrent ability to transport and take delivery of Merchandise in a timely fashion and on a worldwide basis.

149. The Debtors also rely on their network of common carriers, expeditors, consolidators, transportation service providers, freight forwarders, and other related parties (collectively, the "**Shippers**") in this process, who may be permitted to assert statutory or possessory liens against the Debtors' property (collectively, the "**Shipping Claims**"). In the ordinary course of business, the Debtors also store Merchandise for periods during the course of distribution ("**Stored Product**"). Because the Debtors do not have sufficient storage facilities of their own to accommodate the Stored Product, they rely on the services of third-party storage providers until the Stored Product can be used to fulfill e-commerce orders or distributed to the Debtors' retail stores and third party sellers (the "**Warehousemen**" and, together with the Shippers, the "**Lien Claimants**").

150. As described further in the Lien Claimants Motion, in the ordinary course of their business, the Debtors predominantly import Merchandise (collectively, the "**Imported Goods**") from certain foreign vendors. Timely receipt or transmittal, as applicable, of the Imported Goods is critical to both the Debtors' domestic and foreign business operations. Any disruption or delay

would adversely affect the Debtors' business operations and affect the Debtors' ability to efficiently administer these Chapter 11 Cases.

151. In connection with transport of the Imported Goods, the Debtors may be required to pay various charges (the "**Import Charges**"), including customs duties, detention and demurrage fees, tariffs and excise taxes, customs brokerage fees and other similar obligations, which obligations are fully secured by surety bonds that Debtors must maintain in order to be permitted to import goods. Absent such payment, parties to whom the Debtors owe Import Charges (the "**Import Claimants**") may interfere with the transportation of the Imported Goods.

152. I believe it is sound exercise of the Debtors' business judgment to pay the Lien Claims and Import Charges as they become due in the ordinary course of business because doing so will avoid value-destructive business interruption and will not prejudice the Debtors or other stakeholders. The goods and services provided for therein are necessary for the continued, uninterrupted operation of the Debtors' businesses. I believe that failure to pay the Lien Claims and the Import Charges (and post any collateral associated therewith) is likely to result in many trade creditors refusing to provide essential goods and services or conditioning the delivery of such goods and services on compliance with onerous and commercially unreasonable terms.

153. Furthermore, the Debtors have outstanding orders for goods that (i) have not been delivered to the freight forwarder on or after the Petition Date, and (ii) the Debtors have confirmed they want or have not cancelled (the "**Outstanding Orders**"). I understand that granting administrative expense priority will not afford such claimants any greater priority than they otherwise would have if the relief requested in the Lien Claimants Motion were not granted and will not prejudice any other party in interest. But, I believe that the substantial time and effort that would be required in the event that the relief requested in the Lien Claimants Motion were not

granted would be a disruption to the Debtors' business and these Chapter 11 Cases. Further, it would require the Debtors to potentially halt operations and production, damage the Debtors' business reputation, erode the Debtors' customer base, and ultimately lead to a loss of revenue, all to the detriment of the Debtors and their creditors.

154. Accordingly, I believe that the relief requested in the Lien Claimants Motion is warranted and is in the best interests of the Debtors, their estates, and all parties in interests in the Chapter 11 Cases and therefore should be granted.

(j) Motion of Debtors for Entry of Order (I) Authorizing Debtors to (A) Maintain and Administer Prepetition Customer Programs, Promotions, and Practices, and (B) Pay and Honor Related Prepetition Obligations, and (II) Granting Related Relief ("**Customer Programs Motion**")

155. By the Customer Programs Motion, the Debtors seek entry of an order (i) in the ordinary course of business and consistent with past practice, (a) maintain and administer prepetition customer programs, promotions, and practices, including administering certain charitable donations made by customers and employees and (b) pay and otherwise honor their obligations to customers related thereto, whether arising prior to or after the Petition Date), as necessary and appropriate in the Debtors' business judgment, and (ii) granting related relief.

156. I believe the Debtors' business depends upon the loyalty of their customers. To attract new customers and to reward and provide incentives to existing customers, the Debtors administer, in the ordinary course of business, the practices and programs described herein (collectively, the "**Customer Programs**"). The Debtors' Customer Programs include programs for both retail customers and wholesale customers. The Customer Programs for retail customers include, (i) return and exchange policies, (ii) sales promotions, (iii) gift card programs, (iv) credit card programs, (v) sponsorship of various charitable programs, and (vi) loyalty reward programs.

157. I believe the ability to continue to administer the Customer Programs and to honor and satisfy prepetition obligations in connection therewith is essential to keep the reputation of Lucky Brand intact, meet competitive market pressures, ensure customer satisfaction, and, ultimately, maximize value for the Debtors' estates and their stakeholders. Absent such authority, the Debtors risk losing customer loyalty, goodwill, and market share, which could cause a precipitous decline in the value of their businesses at a critical juncture.

158. For the foregoing reasons, and as further explained in the Customer Programs Motion, I believe that it is essential and in the best interests of the Debtors, their estates, and their creditors that the Debtors be permitted to honor their prepetition and postpetition Customer Obligations and to continue or modify the Customer Programs or implement new customer practices in the ordinary course of the Debtors' business as the Debtors deem necessary.

VI. CONCLUSION

159. The First Day Motions seek authority that is critical to the Debtors' business operations and ensures the continuation of the Debtors' operations in the ordinary course of business with as minimal interruption as possible on account of the commencement of the Chapter 11 Cases. I believe that the relief requested in the First Day Motions is necessary to give the Debtors an opportunity to work toward a successful restructuring that will inure to the benefit of all of their stakeholders.

160. Several of the First Day Motions request authority to pay certain prepetition claims against the Debtors. I understand that Rule 6003 of the Federal Rules of Bankruptcy Procedure provides, in relevant part, that the Court shall not consider motions to pay prepetition claims during the first 30 days following the filing of a chapter 11 petition, "except to the extent relief is necessary to avoid immediate and irreparable harm." In light of this requirement, the Debtors have narrowly tailored their requests for immediate authority to pay certain prepetition claims to those

circumstances where the failure to pay such claims would cause immediate and irreparable harm to the Debtors and their estates. The Debtors will defer seeking other relief to subsequent hearings before the Court.

161. I am familiar with the content and substance of each of the First Day Motions. I believe approval of the relief sought in each of the First Day Motions is critical to the Debtors' ability to successfully implement their chapter 11 strategy, with minimal disruption to their business operations. Obtaining the relief sought in the First Day Motions will permit the Debtors to preserve and maximize the value of their estates for the benefit of all of their stakeholders.

162. I hereby certify that the foregoing statements are true and correct to the best of my knowledge, information and belief, and respectfully request that all of the relief requested in the First Day Motions be granted, together with such other and further relief as is just.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this July 3, 2020

*/s/ Mark A. Renzi*______________
Mark A. Renzi, Chief Restructuring Officer

EXHIBIT A

Organizational Structure Chart

LUCKY BRAND
LOS ANGELES